

No.2

INDIAN INDUSTRY

TODAY AND TOMORROW

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is now

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INTRODUCTION

THE post-war age is to be the Age of Planning. And if we are to live usefully in it, we would be wise to prepare ourselves for its relentless demands. Unfortunately there still prevails the most inexplicable ignorance of the needs, particularly in the field of heavy industry, of the difficulties of large scale planning in India. This is not the result of lack of interest or enthusiasm. The great majority of intelligent people were clearly stirred by the Plan for the Economic Development of India published two years ago by certain industrialists. And even the ranks of Government ordinarily so difficult to move are, judged by pronouncements which periodically issue on the subject, fully converted to the planning faith. But there has grown up a dangerous complacency and a serious relapse into inactivity as a result of the confident hope that once a National Government comes into power with a will to do things, things will get done by themselves. This is, of course, a vain and foolish dream. It is no part of this little book to deny that it is certainly possible to treble our national income and double national income per head within fifteen years; still less is it proposed to destroy anything of the hope which the Bombay Plan and other plans, good and indifferent, have mercifully raised. For we need hope, and hope more abundantly, as well as ardent faith in ourselves if we are to succeed in reaching our difficult goal. But there is a great gulf fixed between faith founded

on knowledge which can move mountains and mere complacency and wishful thinking which can only lead to bitter failure. In the field of industry we must do even more than plan, and if those in industry do not understand the full implications of the targets which are now being fixed we shall merely waste our meagre resources which, at this moment more than any other, require the most careful husbanding. This little book is an attempt to examine some of the difficulties which face Indian industry in this vital period of reconstruction.

It would appear that no one can approach any issue in the country at the present time without being accused almost at once of political partisanship. In one sense political considerations are supremely important, for the political setting of the next few years may well prove a dominating factor in the form and shape that future industrialization is to take. But if we are not to be involved at the outset in political controversy we must assume that our economic ends are similar and that we all place the highest priority on the attainment of as high a standard of life as possible for all our people within the short period. To those whose ends are different these pages can have little meaning; they must search their own hearts for a finer end, or a more lasting purpose. The greatest happiness of the greatest number may prove to be an unworkable political faith, but in its economic counterpart, as the pursuit of the maximum welfare of the whole community, it provides still in every country the surest touchstone of policy and the safest test of economic worth.

For, whatever our views on spiritual and political

issues, we must at long last bring ourselves face to face with one unyielding fact. It is a commonplace, not less neglected because it is so often glibly repeated, that the great majority of our people are living in conditions of primary poverty with no opportunities to obtain their minimum nutritional requirements and, therefore, without capacity to obtain mental stimulus or spiritual strength. This is the problem in the solution of which large scale industrialization is the most important ingredient.

There are many voices, and one more deeply venerated than all others, raised against the evils of large scale industrialization. From a limited point of view they proclaim a truth which is not less true because its sharp lines have been more happily redrawn by the industrial legislation of the late nineteenth and early twentieth centuries. To men of sensitive mould the factory system, the keystone of industrialization, is an evil institution for it herds men together in a common task without recognition of their manhood, and certainly without recognition of their equal rights. Discipline means the difference between workers and their masters and, mask it as we will, this difference must cause a clash of interests and a cleavage of classes not less important today than in the time of Marx. Many factories are inadequately equipped; conditions of work leave much to be desired; housing facilities are almost everywhere desperately inadequate, and work is in some cases a bitter test of endurance and, in no wise, the happy occupation which it can be made. The greed for private profit has too often meant a denial of elementary rights to vast numbers of our countrymen in great and sometimes in desperate need. But when all its evils have been fully admitted,

we still return to the urgent need of large scale industry in order to improve our standard of life. This is not to imply that our agriculture of our cottage industries should in any way be neglected; on the contrary they must be stimulated by every means possible. But even when everything practically possible has been done in these fields, we shall still be a poor people unless new wealth is created by large scale industry. And we shall be not poor only; we shall be poor without pride. For we shall be dependent, and desperately dependent, on foreign countries for our machinery, heavy or light, from our locomotives to our bicycles, from large electrical generators to small electrical pumps, from heavy textile machinery to simple power looms, for all that great world which has been opened out to men by the arrival of machines. For good or for evil, we are in an age of machines and we can only ignore this fact at our peril; for, in the last analysis, the defence of our dearly-bought freedom when it comes after years of patient waiting will depend on industrial and technical equipment of a complex and intricate character the basis of which lies in the heavy machinery industries. Our cause may be just but in our heavy industries will lie its strength.

This consideration gives new meaning to rapid industrialization. It is our main safeguard against aggression, against political piracy, against the insane acquisitive instincts which still move nations against one another. Freedom would be a mockery if we were unable to hold it and enjoy it, and we can do neither unless we build up at once our large scale industries on the most modern and efficient lines. This is likely to be a trying and exhausting task; not less trying because in many case

we are copying and not breaking new ground. And we must give it not merely our full hearts but live minds filled with the knowledge of the difficulties with which we are certain to be confronted. And we cannot tarry on our way. We must hurry if only to arrest the fall in the standard of life of our people caused by a rapid growth in population without a proportionate development of our resources. Supreme effort will be needed to rid ourselves of the bitter reproach of dire poverty within. We will need even greater haste and harder striving if we are ever to draw level with the Great Powers and, secure and strong at last, win in the fullness of time proud recognition of our rightful place in the councils of the world.

CHAPTER I

THE BACKGROUND OF INDIAN INDUSTRY

THE Golden Age of Industry, like all golden ages, is uncertain both in place and time. But there has been much in recent writings in India and, perhaps naturally, more in political propaganda, to suggest that the golden age was destroyed by the advent of British rule. And it is tacitly assumed, if it is not always directly inferred, that once the political incubus of a foreign power is raised our industries will spring at one great bound into unexampled prosperity. This facile optimism is not, of course, shared by those acquainted with the technical difficulties of industrial organization in this country but it certainly is widely held by a large number of otherwise well-informed people. This fact should not cause us undue surprise. The argument that political dependency is the greatest enemy of industrialization has been the dominating factor in our minds for nearly half a century. It has gathered strength from the brilliant exposition of Ranade, from the eloquent writings of Gokhale and his followers, and from the widespread political awakening of the last thirty years. And in the main it is a view which is upheld by a solid foundation of facts. No one acquainted with the facts will deny that the Government of India bred in the tradition of laissez-faire, even if it had no political interest in arresting industrial growth in the country, was one of the most crushing impediments which could possibly be thrown

across our path. But important as this factor has been in the past its relevance has greatly declined with the years and the political factor in industrialization has now assumed a subsidiary role. It is true that the hesitant attitude which years of subjection have created still constitutes a drag in many minds. Indian enterprise damped often in the past by the belief, real or mistaken, that in all its schemes it would be hampered by an unhelpful Government may find it difficult to rise at once to the full opportunities of political freedom. The creation of self-confidence in a nation is a slow and tedious task, more difficult in every way than building new faith in individuals. But this cannot alter the fact that the main impediments to industrialization now arise not from without but from within. We shall not be able to throw in the future, as we have so often done in the past, the blame for all our backwardness on other shoulders than our own. For there will be no foreign veil to hide us from ourselves; now we see ourselves as through a glass darkly, but soon we shall at last be face to face.

Industrialization in India, as in every country of the world, is the result of a combination of special circumstances and not a free gift of the gods. In Great Britain where the Industrial Revolution first appeared it may have had many of the signs of a historical accident; but the two most important ingredients of the factory system, Capital and Labour, were the product of set forces and not the outcome of chance. The inventions of Arkwright, Kay and Hargreaves and of Watt and Stephenson, would not have ushered in a new order based on the mass production of textiles and on power derived from iron and coal, if there had not been at hand the ready

means in capital and labour necessary for their exploitation. In Great Britain the new-wealth came in the train of inventions but it was no less the outcome of capital accumulation harnessed to the need for production for an extending world market; it was aided by the presence of a large labour force released if not ejected from the land by the widespread application of the principles of enclosure in the hundred years preceding; it was sped on its path by the presence at its door of iron and coal, the pillars of the new age; it grew in congenial soil among an enterprising and self-reliant people imbued with a powerful individualistic philosophy no less in mundane than in spiritual affairs. All these factors made the Industrial Revolution in Great Britain. There have been other important influences in the last hundred and fifty years; the advent of electricity as motive power, the widespread growth of the Joint Stock Company as the main supplier of capital, and the remarkable development of communications extending markets to the ends of the earth. But in the main these new factors have involved changes of degree and not of kind. The ingredients of industrialization are the same today as they were nearly two hundred years ago.

In India industrialization did not proceed apace in the eighteenth and nineteenth centuries largely because we lacked these essential ingredients required for its growth. The accumulation of capital and its use in overseas trade which was a feature of English commerce for well over a hundred years before the Industrial Revolution was, in India, largely the exception; gold and silver were hoarded in an age of uncertainty; banking was confined in scope and function; and the organization of industry

was largely in the hands of the guilds, and the guilds were not in India, or elsewhere, instruments either of capital accumulation or of industrial progress; an intense conservatism possessed them all. Even if the vast possibilities of the Industrial Revolution had been then realized, it would have been difficult in the disturbed political conditions of the eighteenth and early nineteenth century for much enterprise to be displayed. Iron and coal, vital ingredients of the new order, were not mined on any scale and the absence of communications until the railways came meant that power could not be drawn from our coalfields as it was from the coalfields of Great Britain. Indian ships which at one time sailed the seven seas were in the nineteenth century confined largely to home waters and both our governing and our merchant class had lost touch with the world markets which we had once enjoyed. Indian labour was still happily tied to the land and there was with the joint family no expelling force to drive the poor into new channels of occupation. Capital, Labour and Enterprise were, therefore, not in abundant supply and the inducement to invest in industry must necessarily have been weak where it existed at all. Political disorder and then political subjection to the East India Company were in the end deciding factors. Indian industry could never have challenged the might of the East India Company even if it had been equipped as well as its foreign rivals for any of these tasks.

It is not, therefore, a matter for surprise that throughout the eighteenth and nineteenth centuries when agriculture and industry were being transformed in every land, there was no great Indian name associated with the

industrial development that occurred. Except in the cotton textile industry there was little enterprise of this period which did not owe its conception and execution in the main to foreign minds. The first successful cotton spinning mill established at Fort Gloster near Calcutta in 1818, the first Jute Mill also near Calcutta in 1854, the opening out of the coalfields of Bengal and Bihar, the first modern ironworks established at Burrakur in 1875 were all the result of British initiative. The first Jute Mill to be entirely sponsored and managed by Indians was Birla Jute which was formed as late as 1919 and owed its success only to the initiative of Seth Ghanshyamdas Birla then barely twenty-five years old. All honour is due to Indian enterprise in the cotton textile industry, particularly at Bombay and Ahmedabad, which alone in the late nineteenth century struggling against impediments attained success, but progress in this industry against odds only enhances our failure in other fields. The Railways, the Telegraph system and large Irrigation works were carried through under European guidance. With the political dice loaded in its favour it is, perhaps, possible to explain why British enterprise succeeded where Indian enterprise failed, but it is more difficult to explain why, without any change of Government policy, so rapid a change was wrought in the early years of the twentieth century. The establishment of the iron and steel industry at Jamshedpur and the great hydro-electric schemes of the Tatas and the phenomenal development of the cotton textile industry and activities in other directions in the first two decades of the twentieth century occurred under political conditions not very different, so far as industrial policy is concerned, from

those of the nineteenth. For except for minor revenue duties introduced between 1894 and 1896 of a general rate of five per cent there was no assistance given to Indian industry until 1916; in the cotton textile industry even the stimulus of the revenue duty of $3\frac{1}{2}$ per cent was lacking because there was a countervailing $3\frac{1}{2}$ per cent excise on mill-produced cotton piecegoods. It is clear, therefore, that the argument that it was Government policy which was solely responsible for the industrial lethargy of the nineteenth century is an insufficient explanation of the facts; for Indian industry showed itself able even without Government assitance to display far more initiative in the next fifteen years.

The weakness of Indian industry in the nineteenth century was in large measure the result of its wooden organization in the two previous centuries. At the beginning of the nineteenth century our industries still consisted, as for centuries before, of village handicrafts serving purely local needs and of urban industries serving wider and sometimes foreign markets, but all of minor importance judged by modern standards. We are, perhaps, sometimes misled by high praise of the quality of these goods into believing that they filled a place similar in respect of output and price to that of the modern machine-made goods of the West. It is true that our fine woven cottons once enjoyed a market on the African coast, in the islands of the East Indies and in England itself, but these markets were steadily declining and practically all European markets had been lost before the beginning of the nineteenth century, that is, before the political predominance of the East India Company had been fully attained. The explanation of this fact is

obvious enough. The production costs of handicrafts were inevitably far greater than the machine-made goods of the West and mere quality, which incidentally was by no means universal, could not protect them from extinction. British factory goods were not only far cheaper than indigenous goods but they came quite early, largely through the deterioration of our taste, to be looked upon by our own people as more fashionable and of greater artistic worth. It is likely that the factory goods of the West obtained a more extensive market as a result of the rising political influence of the East India Company but, in the main, the success of these goods was due to the far greater efficiency of industries organized in the full swing of the Industrial Revolution. Indian handicrafts, assailed on all sides by new and unexpected competition, appeared helpless to reorganize themselves on more efficient lines; the urban industries organized in guilds by middlemen might, however, had they been suitably directed, developed as in England gradually on factory lines. But in the main they continued obstinately to persist in the old methods which were everywhere outmoded. Iron-smelting previously carried on in small works scattered throughout the country and the production of steel goods used mostly for arms and ornaments practically disappeared. Hand-spinning carried on as a desperate form of subsistence industry did, indeed, survive at the end of the century but it was on a greatly reduced scale with its existence increasingly precarious and diminishing from depression to depression. The decay of peasant and small-scale industries was accelerated by, but was not in the main the result of, political changes; it was due chiefly to the onrush of the Industrial Revoluwhich it could penetrate. There may have been cruelty as with the gradual extinction of the muslin weavers of Dacca by political persecution no less than by economic war. We must sympathize with the victims of this onslaught and with the industries replaced which, attempting hard to survive, endured a lingering death. But we will only hopelessly mislead ourselves if we imagine that the decay of Indian industries in the eighteenth and nineteenth centuries was not in the main due to their failure to move with the times.

Some misconception of our industrial past is due to the failure to recognize fully the changes which have been wrought by the Industrial Revolution. There is a widely-held belief that the volume of our industrial exports in the pre-British period was very large and their reduction later to a sickly trickle was primarily the result of the denial to us of shipping facilities and the conscious and deliberate persecution of our industries. In point of fact from the historical evidence available there is little to support the view that; judged by modern standards, we were ever a large industrial nation. At the end of the reign of Akbar, sometimes considered the Golden Age of recent Indian history, we were dependent on foreign sources for practically all our metals though in addition to a little elementary iron smelting in various places, small quantities of lead and zinc were apparently produced in Rajputana. Coal was not mined at all in this period and it is clear, therefore, that iron-smelting could never have been attempted on any largescale. It is also to be remembered that communications were extremely primitive so that the

distance between sources of raw materials must have been an overwhelming handicap. All these factors contributed to raise the prices of raw materials and there is abundant evidence from many sources to show that prices of metals, even copper and, iron, were, so far as the great majority of people were concerned, completely prohibitive. Moreland has pointed out that Akbar's mint paid for one pound of copper 1044 dams, which was equivalent to about 84 lbs. of wheat, a ratio which indicates a price nearly five times as great as at present. Iron prices were, perhaps, a little lower, being about three and a half times the corresponding grain figures. But it is not merely the price factor which was important; there was never enough of these materials to enable them to be widely used, and even brass vessels which are now so common could hardly be enjoyed except by a very small fraction of the population. Pottery was not greatly developed being produced chiefly from coarse earthenware and not from special clays. The finer porcelain products used by the rich were imported almost entirely from China. Paper was coming into use slowly in South India, but even in the early seventeenth century most writing was done on palmleaves. The building industries hardly existed; brick and stone were used only by the well-to-do. The houses of the poor were of mud and thatch and there was no industrial construction at all. In the textile industries alone were there signs of moderate activity but even here the total output must have been, by current standards, small. The total yield of silk produced principally in Kashmir and Bengal has been estimated for the year 1600 at about 21 million pounds, and it

was necessary to supplement production by imports from China, and probably also Persia. Even in respect of cotton-weaving which was then by far the most extensive industry in India, production must have been considerably less than one-fifth of our present output. There is also evidence that the poor in Bengal at least used a form of sackcloth instead of cotton clothing apparently indicating that the price of cloth both absolutely and relatively to income was considerably greater than at present. Our commerce and trade were, perhaps, large relative to that of other countries, but when we remember that the total aggregate of Indian sea-going merchant ships could not at the beginning of the seventeenth century have exceeded 40,000 shipping tons we recognize how different the standards of that age were from our own.

The disabilities of Indian industry in the late nineteenth century may, perhaps, in part have been remedied if the country had had the good fortune to be governed in this period by a vigorous administration determined to place industry in the forefront of its work. Unfortunately the prevailing political philosophy of laissezfaire meant not only that there was no positive help; with nothing done to restrict imports or to curtail foreign enterprise within the country, Indian industry was left powerless in the face of foreign competition. The contrast between State policy in India and in Japan is striking, and is perhaps, sufficiently illustrated by the following description by Shigeto Tsuru of the rise of the Japanese spinning industry which will indicate the gulf which divided industrial policy in the two countries. "The chief factor that aroused the industry out

of inaction was not any favourable turn in the 'marginal efficiency of capital'. The Government was the tireless innovator in this industry......The campaign started in 1877 when the Government bought spinning machines from England and offered to hand them over to any enterpriser who would start a spinning mill. Since no one accepted the offer, the Government set out to build two model factories of its own in 1878. In the following year it bought ten more machines and also lent money to three more mills for the purchase of machinery. Such is the background of the expansion of 1877-81. In providing capital the State dominated the scene; directly or indirectly, it financed practically all the conspicuous expansion at the time."

The doctrine of State inactivity in industry so widely pursued in India was not even a logical consequence of laissez-faire. For even when the doctrine of laissez-faire enjoined on the State non-interference with economic matters it did so only because these duties were being fully undertaken by other and, presumably more competent agencies. In Great Britain, for example, the State could, with good reason, leave agricultural development to her improving landlords and industrial progress to her enterprising industrialists. In one case there was the risk that the rights of tenants and, in the other, of workers, would be imperilled but at least progress was not stayed. This doctrine could not have found a similar application in India because, in point of fact, at least in the nineteenth century, alternative agencies even partially equipped for this task did not exist. The doctrine of laissez-faire was an inference drawn from the fundamental postulate of the existence

of vigorous private enterprise; to apply it to conditions in which private enterprise was desperately lacking was to miss its whole purpose and defeat its end. It is difficult to explain how an argument so patently fallacious could have imposed so long on intelligent administrators except on the assumption that as it coincided with their country's interests they were completely blinded to its faults.

Still less did the doctrine of laissez-faire even at its zenith imply that Governments had no responsibilities at all; it was a doctrine for industry only, and not even for industry altogether. This can be abundantly illustrated from the economic history of Great Britain. The Statute Book of Great Britain in the nineteenth century was embellished by a long line of Factory Acts culminating in the great consolidated Factory and Workshops Acts of 1878. And in point of fact the economic activities of the State were not restricted but widely extended in almost every field. The Poor Law, although adminstered in the individualistic spirit of the time, was a far-reaching example of State paternalism which anticipated the principle of State responsibility for the unemployed in the twentieth century. The pioneering Public Health Act of 1848, considerably enlarged and expanded, had, by the end of the century, given the State full charge of the nation's health. Compulsory education introduced by the Education Act of 1872, followed soon in 1876 and 1880 by further additions, was a vital factor in the training of industrial labour and a direct and far-reaching aid to industry. All these vigorous measures were carried through by successive Governments impelled not by Socialist teaching but

by the generally accepted liberal doctrine of laissez-faire current at the time. It cannot, therefore, be pleaded that in these fields the failings of the Government of India were the outcome of the prevailing political philosophy; for the liberal doctrine of laissez-faire was nowhere to be confused with a doctrine of universal lethargy and drift.

There can be few factors which have had so hampering an effect on industrial development as the failure to proceed with vigour with a far-reaching plan of good primary and, later, technical education. Sir Charles Wood's famous despatch of 1854 which provided for the promotion of a scheme of elementary education maintained or aided out of public funds was, perhaps, an early and promising beginning, but the results so far as practical achievement is concerned, have been bitterly disappointing. As education was primarily intended to provide candidates for the public services, the essential needs either of industry or of those students unlucky enough to find no room in the services, were completely ignored. There was practically no technical education at all until comparatively recent times and, in many cases, the literary education provided engendered a contempt for manual work and, therefore, imparted to generations of Indian boys a distaste for industrial work, the full effects of which are still clearly visible. Almost all the talent in the country has thus been sedulously drawn away from the tasks of industry, making the problems both industrial management and industrial organization far more arduous and exacting. In recent years there has been a welcome indication of change and an apparent departure from the common desire to make direct for Government service and securiy. But except among artisans a dislike for manual labour still remains and constitutes one of the most serious difficulties of rapid industrialization. It will now be one of our first duties in educational reconstruction to provide the training most suited to industrialization; this must be a long and tedious task made more difficult by decades of mistaken and wasted effort.

The failure of our educational system to serve the needs of industry is not, of course, to be attributed to a single cause. There is no doubt that our customs and ways of life have proved severe hindrances to new methods of work and, even if far more effort had been expended and far more finance provided, the results may still have been disappointing. An even greater handicap in the future is likely to arise from our rapid growth of population which places upon all nationbuilding activities the severest strain; an unchecked birth-rate stands like a stone wall across every forward path. In spite of our greater knowledge we are, perhaps, less equipped today than ever before to make a rapid advance in mass literacy. For the problem of education is so closely knit with the general economic condition of the people, now at its lowest ebb, that it must take long for appreciable improvement to be effected. We may start at once on the road, but it may be many years before we reach the promised land.

The tragic waste involved in our failure to turn to good account the minus of our people in a great drive against poverty and ignorance is, in some respects, overshadowed by the terrible havoc which is from day to day and year to year wrought among us by death and by

disease. So far as Indian industry is concerned, the physical weakness of our people and their low expectation of life are a double blow. Because our people are greatly undernourished, their physical capacity for work, particularly for heavy work, compares very unfavourably with workers in advanced industrial countries. And frequent illness involves both absenteeism and loss of skill, further reducing productivity per man hour to a figure much lower for the same machines than the corresponding figures in the United Kingdom and in the United States. The direct consequence is low wages and the whole vicious circle; low wages and low nourishment; low nourishment and low output; low output and low productivity. But in addition to this vicious circle there is a long-run factor arising from the lower expectation of life of our people. Our average expectation of life is only about twenty-six years so that of all the males born in the country we can on an average only reckon on a working life of about ten years against an average working life of over thirty-five years in the United Kingdom. If we consider the expectation of life at the age of twenty, the figures are happier but still not very encouraging The expectation of life of those who survive till twenty is about thirty years. But this figure is still much lower than the corresponding figure for Great Britain which is over forty-five years. Even, therefore, if we confine ourselves to those who enter industry at the age of twenty, the industrial life our workers is only twothirds of the corresponding houre in Great Britain. But this is not the full sad tale. On account of absenteeism we lose another twenty per cent of accendance and we have a far larger share of holidays and festivals. In all

we probably receive little more than twenty-five per cent of the work from each individual that is obtained in the advanced countries of the West.

It would be easy enough to point to the failure of the Government of India and the Provincial Governments to grapple firmly with the numerous questions included under Public Health. Apart from the introduction of vaccination there was no organized effort until 1880 to spread knowledge of sanitation and preventive medicine and, while some progress has since been made, there can be no doubt that much, particularly in the field of industrial health, has been left undone. But criticism of the administration for various and continuing acts of omission does not entirely remove the great responsibility which rests on our own shoulders. As a nation we have been notoriously indifferent to the terrible scourge of sickness and disease; we have grown callous to its exacting toll; and few of us have ever used our full minds to seek to better conditions which are a disgrace to ourselves and to all our brave professions. We may choose, not without cause, to criticise successive administrations for their inactivity; their responsibility is heavy, but it is only he that is without sin that should lightly throw the first stone.

We are on much surer ground in criticising the Government of India in the nineteenth century not for their failures in Education and Public Health in which large non-official co-operation was essential for success but in the provinces of agricularal and industrial development where precisely because this assistance was less necessary so much more might easily have been achieved. The helpless drift of industrial policy in the nineteenth century was largely expressed in a mistaken tariff policy

which had its root in the delusion that for an agricultural country industry never seriously mattered. It was an added recommendation that this view suited British trade. The "free-trade" tariff of 1882 swept away even the moderate import duties of the earlier period of financial stringency, and it was not until 1894 when financial stringency appeared again that a general import duty of five per cent was imposed. When this general rate was applied to cotton piecegoods from Lancashire, the outcry in Great Britain was quite sufficient to rush the Government of India into a countervailing excise of five per cent on Indian mill-made yarn of twenty counts and more. In itself this merely reintroduced the "free-trade" principle but it was a clear indication of the source from which Government policy sprung. The fact that in the main the tariff schedule was not altered until as late as 1916 is indication enough of the extent to which the counsels of Whitehall prevailed over the needs of Indian industry. It is an unhappy commentary on the commercial policy of the Government of India that it could only persuade Whitehall to accept a general rise in the trariff schedule in 1916 on the plea of renewed financial stringency. Until the appointment of the Tariff Board in 1923 and the subsequent policy of "discriminating" Protection, financial stringency appeared to be the only fairy godmother whose aid could always be invoked in moderation to protect our weak and struggling industries in the difficult days of their unwelcome birth.

It is, perhaps, unfortunate that in the directions in which Government initiative in the economic sphere was effective it should have been the instrument, not of promoting, but of hindering industrialization. The large-

scale construction of railways and other communications and the introductions of the electric telegraph, all good in themselves, were far more effective in extending the market for foreign products in the country than in stimulating Indian industry. There is to-day hardly any area in this great sub-continent to which foreign goods have no access; in not a few cases the railway rate structure was employed to benefit foreign manufacturers and contained differential rates which further increased the cost of Indian goods in common markets. Today on the eve of transfer of economic control, we are faced with the extraordinary anomaly that while Indian consumption goods are rigidly zoned and cannot reach a free market, there is no area of the country which is barred to foreign imports. This is, as always, defended as a concession to the Indian consumer, but it is at least a coincidence that the needs of Indian consumers so often assist foreign industry to the detriment of our own.

In its tariff policy, in its railway rate structure, in the general structure of industrial organization, the Government of India, even under the pressure of war, have given but little consideration to the long-range needs of Indian industry. A deep-seated distrust has thus grown up between Governments and commercial circles and constitutes a serious bar to co-operation in the difficult tasks which they will have in the next few years to accomplish together. Throughout the war when the needs of Indian industry were great, Government policy was singularly unhelpful. We exported food of which there was an acute shortage and imported consumption goods instead of the machinery required to produce them. With a desperate shortage of yarn we were not

permitted to acquire spinning machinery from abroad, or set up a vigorous textile machinery industry within the country. With a desperate shortage of cloth, mills were and are still being repeatedly closed for lack of coal. With an acute shortage of fertilizers for our agriculture, we have not been able to develop a great fertilizer industry to supply even a small fraction of our chemical requirements. Price-fixing came late and in inexperienced hands has been too often hasty and arbitrary. The net result is universal shortage. This is partly the aftermath of war but it is also the result of gross mismanagement. Procurement, hastily resorted to when distress was already present, has not staved off famine or disease; and a bitter price has been paid for each successive failure with no lesson learnt. To-day on the eve of Planning, when we should be looking forward to extended control over the whole field of trade and industry, confidence in the administration is so undermined that there are many who would shrink from all controls as from a fell disease.

Of all the impediments to large scale planning the continued deterioration in our administrative machinery is, perhaps, the most tragic of all. At least for two generations we have been trained in the Socialist teaching of the West and, recoiling from the waste of opportunities in private hands, have come to look to an efficient State machine to provide a solvent for all our ills, to effect a fair and just distribution of the nation's wealth and to banish ignorance and poverty from the land. Our war experience has shown how misplaced these hopes will be unless our whole administrative machinery is reformed and rebuilt with ruthless efficiency. Some of us expect

little and may not be bitterly disappointed. But there are others, more young and more hopeful, who have made of this State, which is soon to be our own, a new Heaven and a new Earth, the old Heaven and the old Earth having passed away. It would be a supreme tragedy if their hopes, like ours, soon crumbled away; we must save that faith at least for them, for there is now no other. We will fail unless we can create a new passion for the public service and inform it with profound knowledge and close understanding. That is he greatest need of the country in every field; if we can meet it, even if we fail in other things, we shall be able to pass on to succeeding generations a sign in which they at least shall conquer.

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CHAPTER II

TARGETS AND RESOURCES

DLANNING is merely the introduction of method in our economic life. In an unplanned economy we are at the mercy of uncertain forces of supply and demand, not only fickle and variable in themselves but often completely unrelated to human wants and needs. Mankind has paid a heavy price for 'this disorder. In pain and suffering shared by millions of men and women in every slump, a slow appreciation has been at last won of some of the factors, particularly those relating to money and investment, which have periodically worked their havoc within the economic system. This has given us the means to plan but the means may meet a variety of ends. Subject to the limitation of our resources and our capacity for organization we are free to choose from many paths. But this choice is for a moment only; when made it becomes our master, binding producers and consumers alike in an iron bond. Expressed in the form of a target it represents in each field the work that is to be accomplished. The target is only a figure but it is a figure with profound meaning; it is an estimate of our own resources and capacity and, therefore, a challenge to ourselves. In planning, the target is a vital thing like number which, as the symbol of method, Pythagoras, in a moment of enthusiasm, once described as the source of all things.

There were twenty-nine Panels constituted by the Goverement of India for the work of fixing targets in various fields. Most of them are still in process of deliberation and few targets have been finally fixed in any sphere. But for the broad outlines we have the targets of the Bombay Plan designed to secure in fifteen years a five hundred per cent increase in industry, a hundred and thirty per cent increase in agriculture and a two hundred per cent increase in tertiary occupations. These targets, as we shall see, may need adjustment depending on many factors and in particular on the conditions under which the Plan is first put into operation but as broad foundations they appear to be sound first appoximations from which argument may proceed. There has been much questioning of details; the optimists would have us go further and the pessimists would hold us back. There is danger that unless criticism gives way to decision we may move to and fro. Much of this criticism particularly in regard to the function of finance is in obvious error. After a war which has shown how readily finance can be multiplied for purposes of destruction one would have thought that there would be few who would doubt that, given similar determination, the resources of the nation could be mobilized to attain the victories of peace The rate of expenditure can be controlled in any plan and, as proposed, our commitments in the first five years will be considerably below the scale of our war-time expenditure; moderate expansion of the currency always steering clear of inflation will assist us over the next ten. The difficulties of the Plan are great but they arise not from finance. In the past Finance has too often been an unbending tyrant but now after two wars we have at

last won the knowledge that it can be made a faithful and obliging slave.

Lack of finance has been down the years the lame excuse for every lack of determination, the weak defence for every ignorant failure to grapple firmly with events, the easy path of helpless drift in the face of every serious problem affecting the country's economic life. Schemes of education, of rural reconstruction, for the improvement of public health and for the promotion of trade and industry have all foundered on the rock of finance. It is now more important than ever that we should at last shake ourselves free from the shackles of feeble and outworn financial shibboleths which have done nothing but hold up advance in every field. There are real difficulties set by finance; we cannot without serious mishap multiply either private or public expenditure indefinitely. There are clear limits but these limits are not set by immutable laws of nature, or by the frail and fickle requirements of balanced budgeting. In a planned economy these limits are imposed by two considerations, and two considerations only. The first of these is the need for arresting inflation, that is, an unhealthy expansion of the currency which, being greater than the current needs of the people, breeds of itself an unending spiral of rising prices. The second consideration is the need for restricting the forced savings which are extracted from the people when Governments finance their projects by the issue of notes and the creation of credit in their own favour, thereby reducing the volume of resources available to private users. These forced savings may be produced by rising prices, or by rationing, or by otherwise restricting consumption; in any case they impose a

sacrifice on the people and it is essential that these sacrifices over a period which may be long and strenuous should be consistent with the character and resources of the nation. In a wisely planned economy, the rate of government spending must not be seriously out of step with the community's propensity to save. This does not imply that the rate of saving must dictate the rate of progress for the rate of saving can itself be altered by the plan; but undue restriction of consumption may sap the morale and even something of the vigour of the people. This is not, however, a financial but a human consideration. In the last analysis, it is men and not machines that make a nation, and ultimately levels of achievement are fixed by the compelling limits of human endurance. To some degree and for restricted periods we can, as with the elements, bend human desires to our will, but in the long run we are still subject to their unyielding core and must at last submit in part to their imperious sway.

Viewed against the pressing problems of the future instead of against the wasted opportunities of the past there is nothing spectacular or grandiose about the raising of finance over the next fifteen years of the order of ten to fifteen thousand crores. Even if the figure were twenty thousand crores at present prices, it would mean only five hundred Rupees per head of our present population and a little over four hundred Rupees per head of population at the end of fifteen years. An annual figure of capital and recurring expenditure of thirty Rupees per head may seem large against present estimates of the country's national income but it is a trivial and paltry sum when compared with the planning commitments of

other countries and the desperate need that exists for the raising of our own standard of life. It is only because we are in the infancy of planning that we are so easily staggered by large figures; in time, as with our childhood fears, we shall be able to look them calmly in the face. It is, however, the real effort and the problems of organization and mobilization of resources involved in attaining our targets that call for understanding. Here we are confronted with real difficulties and it will do us no good to dismiss them lightly as though once the camel of finance were swallowed, we were only straining at a gnat. There is a tendency in many quarters, unfortunately not least in circles connected with industry, to regard the fixing of targets as merely an exercise in multiplication; and the country is invited without any recognition of the full implications of a target to accept any figure which prevailing optimism makes possible. There can be no more dangerous error. If we are to plan successfully we must also plan minutely, and we must steadfastly refuse to set ourselves tasks for which we are not fully and adequately equipped in every respect. Planning on paper has been in the last three years the happy hunting ground of every ignorant amateur in authority. We shall have now to approach our task with far more professional competence. For, in the last analysis, planning is both construction and organization and we will succeed in neither by ignoring real difficulties, or by treating real weaknesses as though they could be dispelled overnight with a wave of a magic wand.

In a planned economy, as in the classical interpretation of free enterprise, our difficulties arise under the four main heads or factors necessary for productive effort —

Land, a generic term for all raw materials, Labour, the human element in industry excluding managerial and directing staff, Capital, the origin of finance and durable equipment and finally, Organization or Management. These four factors with varying emphasis on each are the cornerstones of large scale industry whether in a Capitalist or in a Socialist State. Whatever the ownership of the means of production or the distribution of the output of industry we have still to reckon with the fundamental problem of industry which is to secure, as with a marriage of true minds, the happiest combination of these four ingredients of industrial organization. In a competitive and uncontrolled economy, the volume of each factor drawn into industry is within certain broad limits regulated by its price, in the case of labour, the rate of wages, and, in the case of capital, the rate of interest. It would be foolish to pretend that this method of regulation of our resources is satisfactory or even moderately efficient viewed from the point of view of the community as a whole, for there is no mechanism by which the pricing system automatically secures the greatest welfare of all. It is right that we should not trust entirely to the merciful dispensations of the pricing system, but what guarantee is there that State regulation frequently uniformed and always heavy and ponderous will secure a happier result? The answer must be sought in the judgment of the Planning authority; that judgment is the keystone of every arch and if it should fail we will waste our resources and kill all our high hopes. It is this consideration which makes it so essential that all the information necessary should be available to those on whom the ultimate responsibility for planning rests. We will

still be the creatures of their choice as we are now the playthings of the god of prices; but if they are fortified with full knowledge then at least we will have the consolation that a decision has been made with open eyes.

There can be few greater obstacles to planning in India than the desperate inadequacy of suitable figures on which vital decisions are to be made. There are no accurate estimates of our major natural resources, no detailed statistics of the volume of existing production except in a few organized industries, no census of production on which accurate forecasts can be based. The need for a strong department of statistical research has been stressed by every important enquiry or Commission appointed in the last century and the Bowley-Robertson Report published in 1934 contained specific proposals which, if implemented, would have gone some way to filling a yawning gap in our planning machinery. The chaotic and indifferent manner in which these recommendations have been pursued is only one indication of the failure to appreciate the needs of planning. A weak and attenuated Statistics Bill designed for two years on a voluntary basis is all the legislation that the years have brought forth so far as industrial statistics are concerned, and today when we should be armed with the facts necessary for fixing accurate targets in every field, we are still treating statistical compilation as though it were a wild luxury providing peculiar occupation for certain intelligent young men who have the special quality that they can dabble in figures for years without serious mishap to themselves, or to the departments to which they are fitfully and uncertainly attached.

Largely as a result of this absence of a good depart-. ment of statistical intelligence, the data on which we can estimate our natural resources as a factor in rapid industrialization are inadequate and often misleading. There is a legend that our natural resources, now largely undeveloped, are almost inexhaustible and are very great indeed both absolutely and relatively to that of other countries. It is necessary to correct this misapprehension at once. With a few minerals such as mica, monazite and titanium we occupy the centre of the world's production; in the case of others such as chromite and manganese we enjoy a large surplus capacity; in iron and aluminium ores we are well placed and in coal, except for high quality coking coal, our reserves are promising and capable of much greater exploitation. In other products such as jute and shellac we can control world prices; in cotton and silk we hold a good fraction of the world's production; our potential power capacity is very large. But we are seriously short of important metals such as copper, zinc, lead; we have very little sulphur, are seriously deficient in important chemicals, such as potash and phosphates, and are almost completely dependent on foreign sources for our petroleum and oil. While, therefore, we have many of the materials for a long-range programme of rapid industrialization, we must always bear in mind that our economic armour is by no means complete and that if we foolishly venture on a policy of self-sufficiency, we shall soon find to our cost how vulnerable we are in critical points.

Our dependence on foreign and not always friendly countries cannot, therefore, be lightly dismissed. It will be the part of statesmanship to maintain good relations and favourable terms of trade with those countries on which our dependence is severe; at the same time it will be the path of wisdom where possible to develop substitutes for those imported raw materials essential for our key industries. A vital decision in our plan will be concerned with the extent to which, and the speed at which, we should seek self-sufficiency in these materials. This is not entirely an economic question. Much will depend on the extent to which a lasting peace is established and on the extent to which that peace can be translated into a period of free exchange in international trade. But it is unlikely that in the next fifteen years we shall have the opportunity, however great the need, to make ourselves even tolerably self-sufficient. Where our first consideration is the raising of the standard of life of our people there is a good deal to be said for concentration on those tasks for which we are already wellequipped in raw materials and in which rapid progress will not be hindered by all the delays and complications of international trade. On the other hand, if the international outlook is not very hopeful and our imports are likely to be again disorganized we should seek at any cost to place ourselves in possession, if not of workable supplies in India, at least of considerable stocks of these materials or their substitutes. This choice between the path of quick return and the path of safety will not be easy and there will always be a tendency to choose the less difficult course of trusting to a merciful Providence to keep us safe. If this trust should fail as it has done before, our experience in World War II, the result of a policy of continuous drift in the inter-war years may, perhaps, be a guide to what is most needed to stave off famine and defeat. We can ill afford to bury capital in the accumulation of stocks but we may still find this course essential for a few selected raw materials if our industrialization is not to be set back or even in part arrested altogether. It will be the more arduous way, but as in other things the longest way round may be the shortest way home.

The full utilization of our national resources and the winning of new knowledge for the preparation of substitutes where necessary both demand that far greater and far more thorough-going attention should be devoted to the field of industrial research. In the technique of utilization of important minerals we are still in our infancy; the amount of money now spent by our largest industry on research is less than that spent by a single giant corporation like General Motors. Everywhere Indian industry has been content to follow far off what has been done in other lands. Assuming that our inventive capacity is in no respect inferior to that of other nations, we would still be far behind in the race for industrial supremacy by reason of the insignificant expenditure incurred on research and on up-to-date scientific organization. We shall never overtake other countries or make full use of our own resources until we multiply research institutions many-fold. The Indian Institute of Science at Bangalore, the Forest Research Institute at Dehra Dun, the Cotton Research Station at Matunga and the Board of Scientific and Industrial Research, among other institutions, all deserve credit, but the sumtotal of their achievement has been small compared to the field now open. Planned research will have to play a momentous part in the next fifteen years and this

research will have, in the main, to be financed as in other countries by industry itself. Research by our universities is, of course, also essential but the purpose of such research will not be directed to the special needs of industry. It is not the less necessary on that account, and there should be no attempt to deflect university research into the channels which we consider are likely to lead to the quickest profit in industry. For new knowledge is without price and nothing is more calculated to destroy the springs of learning than insistence on the criteria of practical value or of profit in the path-breaking activities of the human mind.

The utilization of our resources and the promotion of research involve both knowledge and training and it is, perhaps, in this field that our needs of foreign assistance will be greatest. At the commencement of the First Russian Five Year Plan it was calculated that the Soviet Government experienced a shortage of 5000 superior engineers in industry, 6400 in transport, of 22000 foremen and overseers and 12000 subordinate railway technicians. It is unlikely that our needs over the next fifteen years will be less exacting. The training of this superior technical personnel and of labour is the central problem of Indian industry. As with Soviet Russia much of the training for industry must be accomplished by foreign technicians; our engineers have had too little experience of production technique to provide the knowledge required. We shall have to pay highly for this foreign skill and there is no guarantee that we shall meet in the end with the same success as the Russians. Even if we willingly tread the same hard road the training of Indian labour will be attended by far more difficulty because

neither labour nor management in India is prepared for the rigours of the Russian political and industrial system, the final penalty of which in the event of failure was drastic punishment extending to death.

During the first two Russian Five Year Plans when the full weight of the Russian State was thrown wholeheartedly into the tasks of industrialization the net additional labour intake into Russian industry was roughly 11 millions, the industrial population rising from 13 millions in 1928 to 24 millions in 1937. If we were to attain the targets of the Bombay Plan in the distribution of population at the end of fifteen years, our net intake into industry including small-scale industry separate from agriculture would have to be nearly 22 millions in fifteen years. It is true that this would cover a much wider range of small scale and cottage industry than in Soviet Russia but it does, in fact, represent a volume of new industrial employment nearly double that achieved by Russia in the first two Five Year Plans. Anyone familiar with the problems of Russian industrialization of this period and conversant with the effort which was required under ruthless totalitarian conditions for success will appreciate the extreme improbability of our attaining the targets of the Bombay Plan. There is, perhaps fortunately, no prospect of our going totalitarian though the new despotism exercised by our main political parties has often been described by unwise observers as dictatorship. And no enthusiastic friend of democracy has ever claimed on its behalf that democracy moves faster than the totalitarian machine. The chances of our securing a net increase of twelve million workers in industry in the third stage of the plan must be extremely remote;

this figure alone constitutes nearly four times the volume of existing employment in organized industries and nearly six times the additional industrial employment created during the war years. This is a measure of the organization required for its attainment; we cannot at present say with certainty that it is impossible because the unhappy past is fortunately no index of our future capacity and ten years from now we may be born again and born different. But it is a fair observation to make that judged by present knowledge, the attainment of the employment targets of the Bombay plan would be little short of a miracle. And in industry at least the age of miracles is past.

If the targets for employment are almost impossible to attain it follows as a necessary corollary, unless we are to adopt far more labour-saving machinery, that the concentration of industrial development in the third stage of the plan will need modification. It is impossible to lay down at this stage the precise form which this modification should take and it certainly does not imply that all target figures should be reduced equally. There should be no difficulty in providing the necessary training, for example, in our textile industries where no very complex organization is required. And it may not be necessary to reduce greatly the capital figure on plants employing relatively little skilled labour. It is mainly in the precision engineering industries that we are likely to be far behind schedule, but it is possible that this defect may be in part made good by an extension of plant in industries using less trained labour. This would, however, be by no means a counsel of perfection; it may on balance be worth reducing the targets of the plan instead of outstripping our own powers of organization. For industry,

too, can suffer from acute indigestion by biting off more than it can chew; and when healthy growth is possible there is little to be said for forced feeding; what is gained on the swings will be more than lost on the roundabouts.

Of all the difficulties connected with the plan, the provision of the necessary capital is likely to be the least exacting, provided the governments responsible for the plan are prepared to mobilize the country's resources for the purpose. This may involve the restriction of consumption and, in important cases, controls on investment of resources in private hands. It may involve the drawing out of hoarded wealth and the Bombay Planners have placed a cautious figure of 300 crores as receipts from this desirable source. In point of fact if private gold and excessive jewellery were counted in this wealth would be much nearer a figure of 1000 crores. The volume of this wealth which can be tapped will, of course, depend both on the inducements which new industry can offer as well as on the vigour with which the government is prepared to preach and, in the last analysis, to compel industrial investment. It is likely that the rate of interest will be low, and, as industries increase, the profit-making margin will tend to fall so that our people will have to accustom themselves to a relatively small return on their savings. The disgorging of hoarded wealth and the surrender of personal belongings, if necessary, to assist in promoting the plan are not likely to cause any great rejoicing but we may not at any stage of the plan need to take any drastic measures for the control of investment. The investment and banking habit is growing rapidly and it is possible that in a decade most of the capital will be forthcoming from banking, corporate or government

agencies. But there is no time to be lost in preparing the nation for the doctrine of investment. The wickedness of hoarding as the prime creator of unemployment has, perhaps, only recently been widely appreciated in academic circles, and it will be many years before the private citizen in India recognizes that he is injuring the nation when he performs an act of private saving which does not promote industrial investment. We will need, therefore, much more than a campaign whispered from ear to ear. The new gospel needs to be shouted at all seasons from the housetops—that hoarding is a capital sin, that the circulation of money is the mainspring of our economic life; that it is better to invest than to save and therein only lies true economic salvation for all.

Of Land, Labour and Capital, the main ingredients of productive effort, we have subject to the limitations already referred to, probably enough and to spare. With the problem of organization with which is included enterprise it is not at present possible to be too hopeful. The Bombay Planners consider that so far as organizing capacity is concerned "no serious difficulty need be anticipated in rendering the country self-sufficient within a short period." It is not clear what is implied by the term "short period" but if it is within a decade, there is considerable room for doubt if these managers will have acquired the necessary experience. The organization of new industry is not to be lightly treated as though it were a trifling accomplishment readily acquired; it is different both in degree and in kind from running going concerns. How many industrial managers have we got who have actually established and run new concerns? And the skill of the manager is the centre of the factory; it is round

him that the works revolve; it is by him that ultimate decisions are made. There is no school for management except industry itself; no school for experience except mistakes. The training of the large number of managers required is a vast problem of which too little has been said. It is for our universities to produce them and for industry itself to train them; for both this will be a task for a generation. But our success will ultimately depend on the character and native capacity of these men. In a degree which it is quite impossible to exaggerate our future for good or ill is in their hands.

Hitherto we have been concerned with production targets only, but they are not all, or nearly all, that planning involves. If it is to serve the full needs of the. people, planning must lay down consumption targets also The authors of the Bombay Plan propose that we should seek a national minimum the main ingredients of which are food of daily energy value of 2600 calories, cloth of thirty yards per head per annum, and housing room of 100 sq. ft. per head. If internal production is inadequate to meet these needs any deficit must be made good by imports. The increase of our imports of consumption goods to secure a national minimum raises two considerations of importance. Firstly, assuming that the volume of imports which can be paid for at any time is limited, we shall to some extent have to make a choice between capital and consumption goods. During the next ten or fifteen years, our requirements of capital goods will be very heavy and it is unlikely that there will be any surplus available for the large-scale import of consumption goods. This may involve our having to hold back our targets for consumption goods imports and, since production is not likely to exceed expectation, even to reduce our consumption altogether. Secondly, if the consumption goods imported compete with internal production, their volume must be restricted to the quota absolutely necessary and there should be some mechanism, tariffs, or price fixing, to prevent dumping which will disorganize our own production. This will involve in either case a diversion of the plan in favour of producers.

This leaning towards production is inevitable in a country where industrial production has so long been neglected but it does not imply that the interests of consumers must always be neglected. In the long run planning must justify itself by the higher standard of life which it is its professed aim to secure for the whole people. At the earliest moment consumption needs must again become a prime determinant of the plan. The age of shortage is a necessary feature of all large scale planning, but the shortness of this age is a measure of its success. The phasing of the plan has been designed to make the hardships of this period more bearable, but this has only been accomplished by reducing the speed at which we are to reach our goal. One may be inclined to question the wisdom of a decision which keeps us on half commons throughout the plan instead of drawing us rapidly through a rigorous fast the better to enjoy an earlier feast.

The decision to hasten slowly has, however, solid ground for support. The great majority of our people are too grimly near the desperate poverty line for us to ask, and for them to give, any substantial fraction of their present consumption in order to hasten the goals of industrial production. We must remember, too, that

though it is possible to hasten the first two stages of the plan we will only be increasing greatly our difficulties in a period where training of our labour will be incomplete and reserves of technical and managerial ability small. The compromise reached which is to effect a relatively large increase in our consumption goods industries before embarking on largescale schemes in basic industry is not only in the interests of consumers; it is directed by the technical difficulties of production. It should, however, be possible to go considerably further in this direction than the authors of the Bomby Plan. There is no reason why the capital invested in our consumption goods industries in the first stage of the plan should not be far greater than the 360 crores of rupres which they have proposed. If the necessary equipment is available we could proceed at once greatly to enhance this figure and could thus help to assuage something of the bitter hardships which the desperate shortage of these goods is still causing not only at home but also in neighbouring lands rent savagely everywhere by the hounds of war.

Victory in war has its obligations no less than its rewards. We cannot turn away from the problems of a distracted world merely because in happier times we have now set our hearts on a great plan of economic development for our own people. With the defeat of the Axis powers, we have risen in rank from the eighth to the fifth largest industrial nation of the world. This may mean little in terms of industrial efficiency but it does mean, particularly after the collapse of Japan, that we can readily expand our export markets in the future and for the immediate present that other nations near us ravaged

by war will look increasingly to us to help them in distress. The request of the people of Indonesia for textiles and of the people of China for almost everything cannot always fall on deaf ears. As an industrial nation, we cannot, unless we are prepared to be repaid one day in our own false coin, refuse to consider these appeals to which we are fittest to respond. The day may come when we shall need export markets to increase our own wealth and to provide additional employment for our own people. We should be statesmanlike enough to recognize that although we may have shortage within, it is in our intersts to help these nations whenever possible so that we now build up a bond of goodwill which is the surest foundation for mutually profitable trade. Our targets for the next fifteen years are largely domestic targets; if we cannot surpass these figures of production it may, again, for purposes of export, be necessary to curtail internal consumption. We should be willing to do this even for no promise of future gain; for we cannot now pursue a policy of complete economic isolation. We should not wish to do so even if such a course were politically feasible. For it would be morally indefensible and, in the last analysis, nations must be sustained by moral standards and not by narrow and selfish ends of immediate gain. In any case a policy of goodwill and consideration to all nations is the soundest basis for our own development. It will give us friends in peace and allies in war. It will make the resources of other nations our own, and extend the base on which our own economic prosperity is to be built. Generosity now will be our best investment. If we now cast our bread upon the waters we shall find it after many days.

CHAPTER III

EMPLOYMENT, WAGES AND HOURS OF WORK

DLANNING must, if it is to justify its ways to men, create not only new wealth but also the conditions under which the poor can advance to a fuller life. Its fruits must be borne at last in the heart of the common man; not in the opportunities it gives to a privileged few. And if industry is to enrich the life of the common man it must secure not merely increasing employment and a higher over-all wages bill but also increased opportunities both for congenial work and profitable leisure for the individual workman. It will not be possible to secure the variety of ends represented by these conditions all at once; our resources and our technical capacity for organization being limited we shall need to choose among them an order of priority at each and every moment of the plan. But this makes it all the more necessary that we should be clear in our own minds about the conflicting claims of each. First things must come first and the order of priorities of ends is nearly as important for the execution of the plan as the plan itself.

In advanced industrial countries, the goal of full employment has now been elevated into the paramount aim of social policy. It may, perhaps, be debated whether or not this is entirely a wise decision, but we are not likely to gain anything from pursuing this argument at the present time. For, unhappily for us, full employment must remain for any period which it is profitable for us now to consider merely a distant dream. We have so intractab e

a population problem and relatively such meagre opportunities for new large scale employment that it will be a heavy task at any time to prevent increasing unemployment. The recognition of this fact is not to take a defeatist view of the future either of Indian industry or of Indian labour; it is, however, to take more than a serious view of our population growth. For even if we succeeded in surpassing the highest rate of industrialization anywhere attained at any time in any country in the world we would still be far from reaching the goal of full employment; we would just be able to absorb our surplus population yearly coming of age and we would still leave the land more heavily occupied than an optimum regulation of our agriculture would require. We must face frankly the cruel fact that unless our population growth is considerably retarded, full employment will never be a practical policy for the country. Social security is a blessed thing but its substance is not to be found merely in a Beveridge scheme for India or in a high-sounding declaration of fundamental rights including the right to employment at a fair wage.

The extension of employment is in any case a duty of the State and not of the individual undertaking. This may seem a callous and outrageous conclusion but it follows directly from the pursuit of efficiency, which in its industrial application, implies production at the lowest cost. It is the end of industrial management to reduce costs and, therefore, except in the unlikely con tingency of the wage being lower than the marginal productivity of the labourer, the industrial firm must reduce labour not increase it. In a large number of technical processes, the volume of labour is fixed in relation to

the operations to be performed so that there is not much scope either for increase or reduction of employment. But with rising wages and improving productive technique, the tendency is clearly towards lower and not higher employment for a given output. It may be said that practically all our factories are overstaffed in the sense that if scientific management and the latest technical methods were introduced, considerable reductions in the labour force could be effected. Now that we are planning our industry on modern lines we must clear ourselves of the reproach of unscientific management; this must be frankly recognized as a powerful factor making for further unemployment. The need for rationalization is not however, less necessary on this account. We will do the nation no service by demanding of the consumer a higher price to meet the cost of unnecessary labour. It is for the State and not industry to dispense charity. The duty of industry both to the consumer and to the nation as a whole is efficient production at the lowest cost. Labour has a vested interest in maintaining high wages and high employment in the individual firm as well as in all industries. Like all vested interests this must be examined in relation to the needs of the whole country. But it is, prima facie, a claim to be resisted. However much we may desire increased employment, we cannot require that it should be obtained at the cost of efficient and rationalized production.

It is the primary argument in favour of cottage industries that they provide a far greater volume of employment per unit of capital than large scale industries and it is, therefore, argued that they should occupy a central place in our plans for new industrialization. On the statement of fact there is no difference. Where the same result can be attained by large scale industry or by cottage industry the volume of employment corresponding to the same capital expenditure is considerably greater in the latter case. If we take weaving as a case in point we may estimate the volume of employment per unit of capital as thirty times greater in the case of the handloom cottage industry than in a large scale weaving shed in a mill. The following figures taken from the Eastern Economist may, perhaps, illustrate the point.

	Method of Production	int (or in	tensivity r capital vestment r head of orker)	Output (net value per head)	Ratio	Amount of labour employed per unit of capital
1.	Modern mill (large-scale					
	industry).	•••	1,200	650	1.9	1
2.	Power-loom (small-scale					
	industry).	•••	300	200	1.5	3
3.	Automatic loom (cottage					
	industry).		90	. 80	1.1	10
4.	Handloom (cottage					
	industry).	•••	35	45	0.8	30

It might at first be argued on these figures that if we chose to organize ourselves entirely on a cottage industry basis we could abolish unemployment altogether. There are two fundamental weaknesses in this reasoning. In the first place, our basic industries cannot be efficiently organized on a cottage industry basis. This is clear enough

in respect of iron and steel but it also applies with almost equal force to the heavy chemical industries, to large scale collieries and other mining industries. The range and scope of cottage industries are thus severely limited by technical considerations, but they are even more restricted by difficulties of organization. To set up a cottage industry with the output of a single spinning plant of a mill would involve an almost Herculean feat in organization. The extent to which efficient cottage industries can operate as alternatives to large scale industry has thus been greatly exaggerated. And even when cottage industries can be organized suitably for production there are problems of marketing and sale which often make them far more uneconomical as trading concerns. But there is a second and more important objection to cottage industries than their high working costs. This is their very slow turnover. If, for example, we were dependent on handspinning for our yarn, we would live in constant dread of a perpetual cloth famine far more terrible than the present temporary shortage. To those acquainted with the facts this is clear enough; the handloom industry would perish utterly without the supply of yarn from the mills at present forced to give up nearly 500 million lbs. of yarn which could be far more profitably used by the mills themselves. Additional employment is undoubtedly secured but it is entirely at the expense of the consumer who pays both a higher price for his handwoven cloth and has to wait far longer for deliveries. The nation pays a higher price by the less rapid turnover of its resources involving both income directly destroyed and loss indirectly from the taxable income which escapes taxation. We may judge the price well paid for other than strictly

economic reasons, for we have an obligation to existing weavers which we must discharge at any cost. But we must build the pattern of our new industrialization on something more solid than short-sighted sentiment. If we discard efficient production we shall waste our resources and impoverish the nation instead of enriching it. We must guard against a society in which wealth accumulates and men decay; but it is even more important that we should guard against a society where men decay because no wealth accumulates.

It is not possible, in the absence of data, to prescribe a counsel of perfection in the choice between large scale and other industries. The authors of the Bombay Plan treat the matter indifferently in a single sentence-"Generally it may be stated that while in basic industries there is little scope for small industrial units they have an important and useful place in consumption goods industries where their function is in many cases complementary to that of large units." This cautious and seemingly unhelpful observation is translated, however into fairly precise figures by the allocation of capital of 3480 crores to basic industry and 1000 crores to industries making consumption goods, which is in effect a three to one choice, so far as capital is concerned, in favour of large scale industry. No choice is made in regard to employment but if we assume, which is likely, that large scale industry per unit of capital only provides one fifth of the employment created by other industries, the new employment in large scale industry would be three-eighths of total industrial employment. The volume of total new employment in industry being in fifteen years computed at 22 millions, the Bombay Plan may in

fact then be taken as a scheme for the absorption in fifteen years of about 8.2 millions in large scale industry and 13.8 millions in other undertakings. It has already been indicated that these employment targets will be extremely difficult to reach, because they set up an almost impossible task in organization. But the full implications of this fact are not generally realized. The Bombay Plan provides only for the absorption of the surplus population annually coming of age, the working population engaged in agriculture being assumed constant. If it is not possible even to attain these target figures, we shall not merely fail to reduce unemployment; we shall actually be adding to it. It is some small measure of the dimensions of our population problem that even with an expenditure of ten thousand crores at pre-war prices we will be unable in fifteen years to catch up with the unchecked abundance of our own people.

This unhappy conclusion is certainly not calculated to fill labour or, indeed, any large section of our people with any enthusiasm for planning. If tentative calculations may be made on the basis of the Bombay Plan we should expect unemployment to rise by nearly six millions in the first stage of the plan and perhaps by a million more in the second. It may seem incredible that this should happen at the same time as a steady increase in output is being effected in every sector, agriculture, industry and the services. But it is nevertheless a fact that until the third stage of the plan is reached, we shall be losing ground and not gaining it; a feverish spurt in the third stage will enable us to draw level if our targets are attained, but even this will only cover our surplus working population coming of age in the planning period.

It is not thus even the whole statement of the unemployment problem. For during the transition from a war to a peace economy we may reckon in the first stage of the plan, in addition to existing unemployment, on increasing unemployment of between two and three millions due to the closing of war-time occupations. Not only will the first stage of the plan find us unprepared to absorb the surplus population coming of age; we will be hard put to it to grapple with unemployment caused by the cessation of war-time industries. And we shall end the fifteen year plan with a volume of unemployment compounded of existing unemployment together with the unemployment created by the closing down of war-time industries in the transition period. This will be a staggering figure. This is not a triumphant vindication of the benefits of planning and all that can now be claimed in its favour is that if we abandoned planning we should be jumping out of the frying pan into the fire.

Fifteen years is not a long period in the life of a nation but the next fifteen years in India may well prove critical. The increasing restiveness of labour and the growing impatience with capitalist enterprise carry no promise that labour will exhibit exemplary patience during the next fifteen years. There may be a steady improvement in the standard of life, in the total wages bill and in the total volume of employment but there is not likely to be a general rise in real wages or a significant decline in unemployment. Labour accustomed to fasten on its grievances rather than on its gains is not likely, therefore, to be cheered by the prospect of increasing capitalist enterprise and will view with increasing suspicion if not with confirmed hate any further industrializa-

tion on existing lines. Nor will the nationalization of industry provide any solution of this problem. It is certainly significant that the most serious labour dispute which have hung over the country in recent times are the differences between railwaymen and the Railway Board and between postal employees and the Government of India. The State is by no means an ideal employer and in any case mere nationalization of industry cannot of itself create employment. And it will be too much to expect reason to prevail. With increasing impatience both with private and public industry there will be a strong inducement for the Indian labour movement to capture political power by revolutionary means if necessary. It will be necessary in the interests of the whole country as well as of labour itself to stave off revolution by prompt and wise reform. If labour is to assume political power here as in other countries, we must see to it that its path-is made easy and that its aspirations play their proper part in the counsels of the nation. Thus only shall we succeed in harnessing the power of labour to the country's tasks. It matters relatively little, provided gross tyranny is avoided and no narrow sectional interests prevail, with whom the balance of political power ultimately resides. But it is vital for all our people at this moment more than at all others that our economic development should not be arrested by internal dissension caused by thoughtless oppression or by unreasoning and consuming hate.

If only because of the grave consequences which would ensue if the rising discontent of labour mounts unchecked we shall need to explore anew every method by which the distress caused by unemployment can be alleviated. In other lands it is likely that with full employment policies in execution the volume of unemployment will steadily decline. Indian labour, which is far less insular than it was a decade ago, will soon be anxious to compare its lot with that of labour in other countries and, as the years go by, it will be far less disposed to submit meekly to a mounting toll of unexplained unemployment. The fact that the ingredients of a full employment policy can all in part be adopted in India will suggest that the failure to abolish unemployment is due to administrative lethargy and not to the intractable nature of our population problem. These three ingredients are firstly, Government spending directly on roads, railways, buildings or irrigation works, or indirectly by subsidies to mass consumption such as family allowances or rebates of taxation in the lower income groups; secondly, the stimulation of private investment through a reduction in the rate of interest or a lowering of income tax; and thirdly, promotion of employment by redistribution of income from higher to lower income groups to stimulate effective demand for consumer goods. It may be argued with truth that all these methods are capable of application to India but their efficacy depends upon the momentum with which they are applied being greater than the resistance which they have to overcome. Water may be used equally for quenching smouldering coal in a kitchen grate and for saving a house on fire. But no one with reason would make the foolish mistake of supposing that the two operations are in all respects the same.

When the special difficulties of our employment problem are fully admitted, it is still true that much more could be done by the Central and Provincial Governments to foster employment at least in the transitional period.

During the war period Government expenditure including the expenditure of H.M.G. was maintained at an average level of about 1200 crores per year and provided for additional employment of about one million in organized factories and about half a million in small scale and cottage industries, apart from approximately two million in the armed forces. The sudden cessation of this expenditure at a time when there is vast scope for Government spending on public works and reconstruction is not merely financially undesirable; from the employment aspect it is a grievous sin. The Government of India's own provision this year for direct capital outlay, including railway outlay, is only forty-nine crores Rupees and all the Provincial Governments together propose in the next five to seven years to spend a mere nine hundred crores on new works. It is hardly necessary to argue in the light of our war experience about the absurd inadequacy of this figure. If with an expenditure of one thousand two hundred crores a year the additional employment was only of the order of three and a half million, the meagre expenditure proposed in the next five years will hardly keep half a million men in additional employment. And yet there are everywhere great public needs-roads and buildings and irrigation works required in large numbers and there never has been any doubt about the means being available to finance them. The present policy of the Government of India and Provincial Governments is born of an ancient tradition of financial orthodoxy which we fondly hoped would have been the first casualty in war. But it is so deeply embedded in minds in authority that it is not only constantly revived but firmly placed again upon the throne. When all the world learning new

wisdom has turned its back upon Government economy in public works, we have returned to it as though we were blind men in a storm finding direction only in the sense in which we have moved before. If we persist in this folly we must inevitably pay a bitter price for our failure to read and understand the thoughts and current of our times.

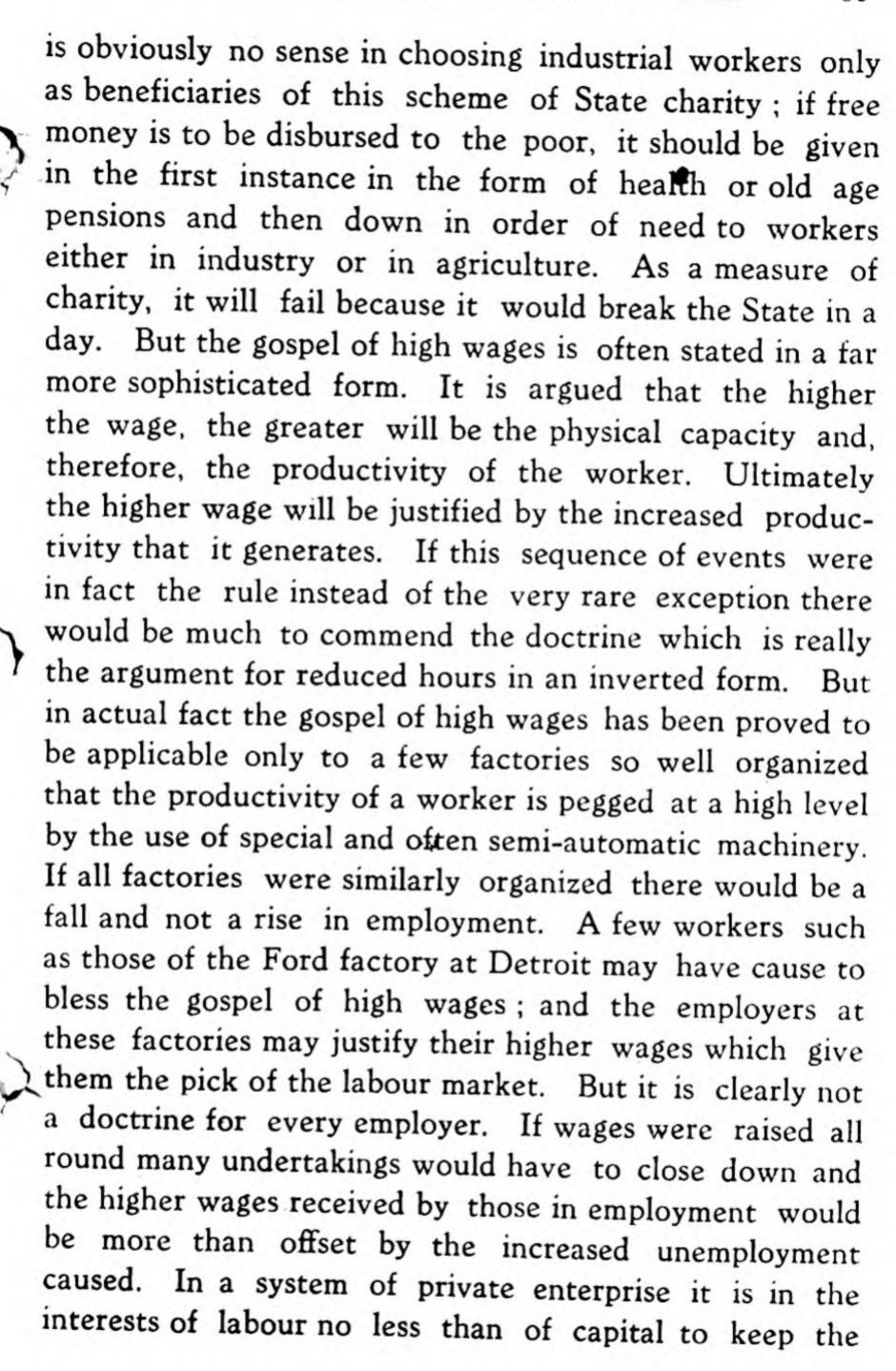
Government policy, in so far as it is explained in the budget of March 1946, is an attempt to follow the second course of promoting employment by the stimulation of private investment mainly through a reduction in taxation. If immediate arrangements were made to supply capital goods suited to the transition and post-war period and if trained personnel were immediately available it may conceivably be possible for private enterprise to make a substantial contribution towards new employment. But we must recognize clearly the limitations imposed on private enterprise even if it were capable of seizing every opportunity now available. The increase in total output in several industries during the war period must not mislead us into supposing that the productive capacity of Indian industry has greatly increased in the war years. This increase has been obtained in the main by the reckless overworking of existing plant and machinery with little new equipment or additional productive capacity. Not only is there an acute shortage of equipment; existing equipment worked multipleshift during the war years is in urgent need of replacement. For the next few years to come the main bottleneck in Indian industry will be capital equipment. It would do us no good to have every inducement to new investment if we had not the facilities to obtain the machinery



required. It would be merely creating a thirst without the means to satisfy it. And this gap would hamper all progress; for in industry as in all things the strength of a chain is the strength of its weakest link.

In other countries, particularly in periods of depression, the weakness of demand has been an overwhelming cause of unemployment. Assuming that supply is adequate, the redistribution of income from higher to lower income groups could stimulate flagging demand of consumption goods. But there are two considerations which make the argument so far as India is concerned less cogent. In the first place, our shortage at present and for most of the period we are considering, is likely to be a shortage of production and not of demand. Secondly, the number of small incomes is so much greater than that of large incomes that even a considerable transfer of income would have little or no effect on the structure of demand. As a measure of social justice redistributive taxation is not the less necessary on this account; indeed, it is also sound public finance. But we would be unwise if we expected the mere transfer of money from the rich to the poor to provide a solution of our troubles. We would also have to watch our step carefully because unless we acted with moderation we would curtail saving more than we stimulate demand and our last state may then well be worse than our first.

The argument in favour of stimulating effective demand is part of the gospel of high wages which has been strongly though intermittently preached as a panacea for all our ills. In its crudest form it suggests an all round rise in wages irrespective of production and as a means of stimulating demand for industrial goods. There



undertaking alive. For a low wage, provided it is not a sweated wage, is better than no wage at all and to kill the capitalist is at present, so far as employment is concerned, dangerously hear killing the goose that lays the golden eggs.

The insistence on a high real wage must in the long run make for unemployment and cannot, except in quite unusual circumstances, be in the interests of labour at a time when large numbers are unemployed. This is not a defence of existing wages; still less is it a denial of the existence of exploitation in the technical sense of a wage lower than the marginal product of the labourer. No one can deny that there are many industrial undertakings whose treatment of labour is narrow and selfish and whose policy in respect of profits and dividends is calculated to create the impression that 1 private enterprise is arranged for the benefit of the owners of capital only. We are not, however, here concerned with the larger question of industrial welfare which is more fully discussed in the next chapter. We are here only concerned with wages as a factor in employment policy. Nothing can alter the hard fact that an attempt to raise wages or to maintain them at a high level will increase unemployment and not reduce it. A minimum wage may not be the less necessary on this account. The State is in the last analysis a trustee for its people; it must, if it is to deserve our regard, protect the weak from the strong and the poor from exploitation by the rich. But even when in righteousness the State fixes and enforces a minimum wage it is labour that must pay the price in unemployment. If a minimum wage is lower than all existing wages it is ineffective; if it is high

enough to require revision of wage rates in some cases in effect it decrees the closing down of less prosperous units which cannot bear the higher wage. The angels in heaven may rejoice at the victory of social justice but only those afflicted can tell at what cost it has been attained.

The argument so far pursued does not appear to hold out much hope of a reduction in unemployment in the next few years. The only direction in which additional large scale employment appears to be possible is by a heavy expansion of public expenditure on public works. But there is one means by which the incidence of unemployment can be reduced for the individual worker. This is by a general reduction in working hours. There is nothing new or revolutionary in the proposal that the length of the working week should be fixed in relation to the volume of available employment. The lower the volume of employment the more important it is that this employment should be distributed equitably among the working population. It is possible though unlikely that this will involve a loss in productivity per man-hour and, unless the hourly wage rate is proportionately reduced, some rise in the wages bill and, perhaps, some loss in output. The full employment of our most efficient workmen would in certain circumstances be more economical than the partial employment of good and bad alike. But the issue is decided not by the fact of productivity alone or by the total output in each case but by the fact of unemployment. It is no longer possible for us to ignore the demand of labour that the State must assume responsibility for the unemployed. This principle has been universally accepted in other lands and has directed policy in

some cases for nearly two generations. Employers in India may plead earnestly that they can ill afford any regulation which is likely to raise labour costs but, unless they have some workable alternative to a reduction in working hours, it is likely that their excursions and alarums will find no echoing chord in other hearts.

That each reduction in working hours over the last hundred years although bitterly resisted by employers has been effected without seriously injuring industry is prima facie evidence that a further reduction is also feasible. The U.S.S.R. with a wisdom surpassing Capitalist practice has followed a consistent policy of lower hours, the average working week in Russia before the war being about 36 hours. There is no reason why similar reductions in other countries should not make an equally great contribution to the solution of the problem of unemployment. In Great Britain today the reduction of hours to a 40 hour week is under active consideration and it can only be a question of time before a further reduction of hours is demanded by Indian labour. It is not enough for Indian employers who have just accepted the 48 hour week to plead that they must have an opportunity of studying the working of present hours. Time and tide will wait for no man. Our employers largely through the fear of a rise in costs at a time when they were facing foreign competition have resisted for many years every moderate proposal to reduce the working week to 48 hours and the working week in seasonal factories to 54 hours. They have now had to accept these reductions with a show of grace; it is more important than ever that they should display the vision and statesmanship which they appear to have conspicuously lacked

in the past. There will be no direction in which their professions of goodwill will be more eagerly tested and, if proved, more readily appreciated. Failure to seize the opportunity now will prove them men of little minds; if they are to prove worthy of the nation's trust they must show now before they are overwhelmed by a threat of force that they, too, are servants of the whole people.

The decision to accept a lower working week is unlikely in fact to involve any supreme act of selfsacrifice. It appears likely from evidence collected in the United Kingdom and in the United States that a working week of 48 hours with an eight-hour day is far from the optimum working period from the point of view either of the worker himself or of the industry. Whether a 40 hour week would be nearer the optimum is not at present clear but in the tropical conditions of India and with the lower physical stamina of our workers, there would appear to be good ground for supposing that a 40 hour week will produce greater efficiency per man-hour. If, as is not unlikely, the Trade Unions welcomed the shorter hours at the same hourly wage rate, employers would lose relatively little. They would have, it is true, to make provision for a larger number of workers and, so long as dearness allowance at a flat rate continues, this would involve a direct addition to their wages bill. But if, as is almost certain, productivity per man-hour increased there would be something to offset against these costs. And the new labour trained would be a valuable additional asset to the country as a whole as well as to individual employers. The greater the volume of highly skilled labour the less is the risk

of dislocation due to sickness and absenteeism of particular workers. If two men are trained for work which previously engaged only one, there would be less employment for each separately but employers would have the advantage of being less dependent on a particular man. If overtime is also abolished as a result of the taking on of more men there would be an added saving which, in factories which consistently resort to overtime, might be considerable. Overtime is now paid for at twice the usual wage and the abolition of overtime would mean a corresponding saving; this saving would, however, be at the expense of existing overtime workers and is likely to be opposed by these workers who will see in the abolition of overtime only a diminution in their own overall earnings. The reduction in working hours may, therefore, in some Unions where overtime workers are influential actually be opposed although it is obviously in the interests of labour as a whole.

Even if the reduction in the working week involved an addition to labour costs and a reduction in profits it would still be sound policy for employers to accept it with good grace. The future prosperity of employers is bound up with the system which they represent. No one can read the signs of the times without recognizing that this system, whatever its accredited virtues, is still severely on its trial. The grant of a concession to labour even if it is dearly bought in money value may mean a longer lease of life. But each concession must not be wrung from unwilling hands but given freely with no petty spirit of bargaining, so forecasting the years to find in loss a gain to match. In industry, perhaps, more than everywhere else, courageous statesmanship is the need

of every hour. Statesmanship is required not only to heal the differences of the past; it is required to build a new bond of understanding so that management and labour, both recognizing their overriding duties to the whole country, will be prepared to surrender selfish and sectional interests for the sake of the nation.

CHAPTER IV

INDUSTRIAL WELFARE

TF the proper study of mankind is man, the proper study of industry is the industrial worker. His well-being is the subject of industrial welfare. But industrial welfare is not only a matter of the worker's well-being and of human relations and humane treatment; it is at the heart of industrial efficiency. Of the twenty-four hours of the worker's day, only about eight are spent at work. But these eight are tied inevitably to his remaining life and his efficiency at work is dependent on the unpredictable wanderings of his restless mind as well as upon his physical condition which depends so much on his receiving food, sleep and the minimum of comfort during the remaining sixteen. If men were machines and required no special attention except occasional maintenance things might conceivably be happier both for industrial output and the men themselves; unfortunately we cannot change either human nature or the essential conditions of tolerable human existence. The human body must have its daily sustenance now being analysed more scientifically into proteins, carbohydrates, fats and vitamins. If it is to resist disease it must have more, the elements of good housing and medical attention when required. And if the human system is to work efficiently, there must be an untroubled mind which can only come from surroundings moderately tranquil and calm. If these conditions are not secured we must lose in industrial efficiency. It will do us no good to fume and fret at the

continued inefficiency and numerous lapses of our workmen. We must probe deeper; and we shall find in the realm of industrial welfare an explanation of much of the trouble at its source.

One of the most serious obstacles to progress is the location of a wholly unwieldy industrial population in the cities of Bombay and Calcutta and other industrial towns. Against average requirements of 100 sq. ft. of housing space per person the average floor space per person in industrial areas in the Bombay Presidency in 1938, for example, was 27.58 sq. ft. in Bombay City, 43.04 sq. ft. in Ahmedabad and 24.03 sq. ft. in Sholapur. These are average figures which in their nature cannot tell the whole grim truth; cases of twelve persons in a single oneroom tenement are by no means unusual. And it is not a matter of overcrowding only; in the chawls of Bombay and the bastis of Calcutta there is practically no sanitation at all. This is only a small part of the heritage of past neglect. In death and disease, in immorality and squalor, we have denied to millions of children the elements of civilized existence and sometimes the chance to live at all. The infant death-rate in some of the worst localities has risen to 298 per thousand registered births against an average of less than 200 for the general population. And there is a constant deterioration both in physical and mental fibre; and each day the evil grows, for these horrible conditions are centres of death and of disease as well as of lust and hate. For ourselves, and for the future of which we are the trustees, there can be no greater task than to cleanse our great cities of these disgraceful conditions, the bitter fruit of almost a century of continuous drift and callous neglect.

This is in all conscience a momentous task, in no whit to be diminished by a flood of righteous indignation or a categorical denunciation of all the authorities, public and private, directly and indirectly responsible. These terrible conditions have arisen largely as they have arisen in other lands not by design but by unplanned industrialization, by thoughtless and unconcerted individual action, by uncontrolled economic forces the fiercest of which was, and remains, the desperate poverty of the countryside. They have become far more acute and exacting in their penalties in India because of the greater pressure of poverty, because of the far greater difficulties of industrial housing particularly in the cities of Bombay and Calcutta and the absence of foresight and vigour among Governments and local authorities as well as employers. But it will do us no good to sing an endless chorus of blame. Now that these evils have arisen, we must seek to cure them through patient and sustained endeavour by means proved effective in other lands-by the control of new industry, by vast new housing schemes related to the conditions in each area and by a vigorous system of public health and sanitation. We have a long distance to travel and we have lost much time already. It is the more necessary that we should not now waste valuable time in useless recrimination.

The dimensions of our industrial housing problem must be fully appreciated. Assuming that we shall have to provide accommodation in the next fifteen years for an industrial working population of ten millions only, we shall require on the basis of 100 sq. ft. per person and an average family of five, housing accommodation for workers only of the order of 5,000,000,000 sq. ft. If most of this is to

be in urban areas and we assume, following the authors of the Bombay Plan, that a house of 500 sq. ft. will cost Rs. 800 we shall need a sum of Rs. 800 crores for urban industrial housing alone. This is apparently a figure far in excess of that suggested by the authors of the Bombay Plan who estimate all housing requirements at Rs. 1400 crores. Their figure would appear to be an obvious underestimate but since finance is not likely to be the major obstacle it is not at present necessary to join issue on this question. The main difficulties are likely to arise from the acquisition of land so that the building of these houses can be arranged in areas suited to industry, in the procurement of raw materials of which there is now an acute shortage, and in introducing the elements of organization into the chaos which now pervades the building trades.

In order to accomplish its exacting task the building industry in the country must possess the right tools as well as the knowledge with which they are to be applied. At the present time it is equipped with neither. It is unable to lay its hands on the necessary materials; it lacks essential staff; it lacks direction and it lacks organization. If we are to make rapid progress with housing schemes we shall need thousands of directing personnel, architects, building overseers and, for large schemes, commercial managers who can administer large enterprises of the same magnitude as the great building corporations in the West. It is useless to pretend that we have at present even a fraction of the directing ability necessary for our purpose. We must plan to create it with the same vigour as we must plan the production of the enormous quantities of building materials required: Building should be made one of our greatest organized industries instead

of being as today one of our feeblest. In Great Britain where building is a seasonal industry, building and public works provided occupation in July 1939 for over one million four hundred thousand workers and the value of buildings constructed in the year 1938 alone was nearly 339 million pounds sterling. If we estimated our total housing expenditure from all sources at Rs. 160 crores per year for the next fifteen years, this would represent roughly £ 120,000,000 per year or a little more than a third of building in a pre-war year in Great Britain. When we recognize how much more desperate our need is both because of our population and because of the terrible over crowding that already exists, we can feel nothing but extreme dissatisfaction with a figure so paltry and inadequate. And yet unless the building industry is completely reorganized it is unlikely that we shall find ourselves able to effect new housing of value more than half that represented by Rs. 160 crores per year. That we should find ourselves in this pitiable condition is not merely a bitter commentary on our building industry; it is one of the gravest charges of mismanagement that can be laid at the door of any government professing concern for the welfare and health of its people.

It cannot be denied that Government mismanagement has contributed greatly, and continues greatly to contribute, to the prevailing disorder. During the last four years all building materials—bricks, steel, cement, mortar and even sand have come under rigid Government control. The precise purposes of this control were nowhere clearly defined, the general classification of "war purposes" being enough to describe works of the highest priority as well as much building which could easily have been deferred. It

is true that war-time control did assist industrial housing operations in the case of a few factories described as possessing war value. The general attitude to all other housing schemes was one of studied neglect and new building was in any case completely arrested by the strict control of steel and cement. With a suddenness which is the more inexplicable when one considers the reluctance to move in other fields, the Government hastily decided as from-1 April 1946 to abolish the system of wartime licensing in the case of steel and cement so as to promote rapid building. The jubilation which this decision created has been shortlived; the prescription has proved a remedy worse than the disease. It was fondly assumed that since the Government had decided to remove licensing and also reduce prices, we were well over the age of shortage and were shortly entering on a new and unfamiliar age of plenty. In point of fact we have passed from shortage into famine. When stocks were short it was in any case an error to stop licensing but the reduction in price at the same time was deliberately to throw the fat into the fire. Demand at the reduced price was further whetted so that practically all the steel and cement currently available was rushed into an unlimited black market which is now prepared slowly to disgorge its priceless treasures only on payment of from one-and-a-half to three times at what is still, ironically enough, described as the controlled price. And there is a similar tale to tell of other building materials. The wild scramble for these materials that is now proceeding may be a welcome indication of the prosperity that is likely in the near future to overtake the building industry as well as black marketeers but it contains no

promise either that urgent industrial needs will be met or that the poor, who most need protection, will not, as usual, be driven to the wall.

In full view of the tragedy of existing squalor particularly in the cities of Bombay and Calcutta one cannot contemplate existing chaos without a sick heart. There has been no attempt to give any priority to industrial housing or to any housing at all. The encouragement given to employers in the budget of March 1946 to debit all building expenditure to current charges for income tax purposes seemed a wise and far-sighted inducement; but the pious wish that it should actually result in new industrial housing must remain unfulfilled until industrialists can lay their hands on the materials required. As with so much well-intentioned public finance Government have created an appetite while by their own hasty action destroying the means of its satisfaction. And thus we live in a land of endless make-believe. Everywhere we are encouraged to believe in the dawning of a new age in which the world is to be made not only safe for democracy but also secure from want. But everywhere when we reach out for the substance on which the new age is to be built we draw a barren hand. Unless we now grapple fiercely with problems of housing we shall become the victims of our own delusions; for houses cannot be built like castles in the air or multiplied as though they were merely rabbits to be drawn endlessly by magic out of an empty hat.

There are three directions in which vigorous action is now imperative. The first of these is in the acquisition of land for industrial housing in the neighbourhood of the big industrial areas particularly in Bombay and Calcutta

It was one of the finest fruits of the work of the Royal Commission on Labour that it secured, through an amendment to the Land Acquistion Act in 1933, right of industrial concerns to approach the authorities for acquisition of land for industrial housing. Inadequate use has been made of this merciful provision in the past, but now that industrialists are showing some recognition of its importance, there are new obstacles which prevent much headway from being made. The procedure for acquisition is in any case a long and tedious affair which, even when no difficulties arise, takes as much as six months to run its unhurried course. But when vested interests oppose acquisition, a case may drag on for years. At the present time in the Calcutta area, there is a regular campaign to resist industrial expansion on the most unreasonable pleas. It is argued that agricultural land must on no account be used for non-agricultural purposes at a time of food shortage; that land acquired for industry is not for a public purpose; that in any case the amount required is excessive and that, above all, acquisition for a capitalist is handing over the poor man helpless to his rich captor. All these arguments, foolish as they seem in relation to the needs of industry and indeed of the whole country, are allowed to hamper and delay industrial housing in the great cities where the need for prompt action is greater than ever before.

Unless the procedure for acquisition is much more summary than at present, it is doubtful if much headway will ever be made, for interested opposition grows by what it feeds upon and popular Governments are notoriously sensitive to any suggestion that they are favouring the capitalist. One would have thought that after acquisition had been sanctioned by the Government there would be no case in which the desirability of proceeding with acquisition would subsequently be questioned. In point of fact, however, as soon as one hurdle is crossed another looms in view and there is no end to the opportunities which in practice are provided to the opposition to hold up acquisition on the plea that it is in fact undesirable. The Defence of India Rules may be bitterly opposed as a means of curtailing individual freedom in times of peace; but we shall have, if planning is ever to be a reality, to invoke them or some similar summary procedure to give effect to what is judged necessary for the country as a whole. Procrastination may be pardoned if it were only the thief of time; but we cannot afford to allow it to jettison every proposal now being made for the public good.

The second essential requisite for success is the planned production of the building materials required. On the basis of our estimate of ten million houses for industrial workers in the next fifteen years we shall need over 250,000 million bricks, over 40 million tons of cement, and more than 5 million tons of steel as well as large quantities of other materials. No one can contemplate these figures with equanimity. They represent in themselves about fifteen times our present annual production of cement and nearly four times our annual production of steel. There is of course no reason why we should not in fifteen years greatly increase the quantities of these materials produced. But industrial housing is only a fraction of total housing and steel and cement will also be required for factory buildings without

which our other plans cannot be attained. For all buildings we may need from five to six times the estimate of materials for industrial housing only. This will affect our targets for production of steel and cement and the centres where they are required will, since transport will be a major factor in costs, be a determining consideration in the location of new steel and cement plants. The erection of these plants must be begun without delay as existing production will not sustain a programme of building on anything like the scale required. For the present both steel and cement plants have to be imported from abroad and an element of uncertainty is thus introduced which we should seek at the earliest moment to remove. Meanwhile we may also have temporarily to import both materials lest we should fall short of stocks at vital stages of our programme. As imports are at present more expensive than materials within the country, we shall have to pay a price for our haste; where 'we can afford it we should be prepared to pay this gladly remembering that against the health and welfare of our people money is but of little worth. In the removal of disease and in the opportunities which this added expenditure will give to our people we shall be repaid a hundredfold.

The third and in some respects most important direction in which speedy action is required is the setting up of the necessary administrative machinery to deal promptly and efficiently with new industrial housing. Proposals for a Central Building Fund have already been made and generally approved; it is largely now a matter of constituting a Governing Body to deal with the Fund and to prosecute its programme with foresight, speed and vigour. The balance of advantage would appear to

favour a small committee, possibly of three members only, which could be clothed with the necessary authority to take executive action directly in consultation with local Governments. The task of this Committee would nowhere be easy and since political influences are likely to be invoked at every stage there would be much to be said for leaving execution entirely to permanent officials. When we are advancing towards democracy a recommendation that unfettered discretion should be left to officials is likely to be considered retrograde; but the issues involved are so liable to become a bone of contention between rival political groups that progress may be stayed if it is not arrested altogether by the vigorous promptings of party machines.

If building on this scale is to be rapidly accomplished, it must have an assurance of Government support which must never be halting and inadequate, least of all in the provision of finance. It may be judged necessary to make a levy from employers suitable to the circumstances of each case but the responsibility for housing in industry as everywhere must belong to the State and local authorities and not to any individuals. There is nothing unusual in this canon for the finance of all housing, although it has not found general application yet in India. In Great Britain at the present time the Government have undertaken to meet a standard subsidy of £22 per house per year for 60 years, three quarters of which or £16.10. is to be found by the Exchequer, the remaining fourth coming from the local authority. For flats built on expensive sites there is a graduated subsidy scale starting from £38 per flat. We cannot emulate Great Britain in the scale of housing subsidies; our

scale both of initial cost and of subsidies must be considerably lower. But whatever the agency chosen to attain the targets of the Plan, ultimately the State must be there either to do the task itself or invoke its compulsory powers where both persuasion and argument fail. There is a great deal to be said for leaving private enterprise to undertake most of the building because at present public agencies have neither the staff nor the machinery to enter the field on a very considerable scale. It is also unfortunately true that building by Government Public Works Departments has often been so wasteful that a nationalized building industry is not likely to inspire the country with any confidence. There should, however, be considerable scope for Building Co-operative Societies and there is something to be said for the removal of the restriction recently unwisely introduced hampering the investment by Insurance Companies of their funds in large scale building. The division of functions between these various agencies will itself constitute a difficult problem; but if profits are rigidly controlled, it may be anticipated that there will be no vicious scramble for the lion's share. And there will probably be for the next fifteen years enough building work to keep them all fully and contentedly occupied.

Good housing is the most important factor in industrial welfare and is entitled to pride of place in all schemes for industrial betterment which it is hoped that the age of planning will usher in during the next fifteen years. But it is far from being the only aspect of industrial welfare in which the State will need to take a leading hand. Of nearly equal importance are schemes of health insurance and the provision, on a scale not hitherto

attempted, of good preventive and curative medical treatment. In some respects, there has been a greater readiness on the part of employers to recognize their obligations under this head than under any other. The losses due to sickness and absenteeism on an average amount to about twenty per cent of days worked and are too apparent for them to be lightly brushed aside. Many employers have first-rate dispensaries and provide medical treatment and free medicines to workers and their dependents on a scale which puts to shame Government and Local Fund dispensaries. And employers as a whole through their Associations have declared themselves wholeheartedly in favour of a scheme of Health Insurance and Sickness Benefit on the lines of that described in the Adarkar Report. This is not of itself ground for excessive jubilation because the Adarkar Scheme is a very hesitant and cautious beginning. Against nearly 4,000,000 workers in our organized industries it covers about 1,200,000 workers, or a little over a fourth; it proposes without any adequate justification to exclude Government and Local Fund concerns and it provides for exemption of factories with less than 500 workers as well as for other concerns which in the opinion of the Central or Provincial Governments might suitably be excluded. The rates of benefit proposed cannot be described as generous though it should also be said that the scales of contribution are not by any means unduly high. If the Stack and Rao recommendation be also accepted, insurance would cover Maternity Benefit and the scheme could also be integrated to cover Workmen's Compensation; at present, however, no decision appears to have been taken on these points

and the balance of opinion appears to favour the making of a humble beginning with all ornaments to the original scheme laid by for happier times. To labour this must have come as a bitter disappointment. Nevertheless the Adarkar Scheme with all its shortcomings is at least a firm step in the right direction; for half a loaf is better at all times than no bread.

What must exasperate all those who set great store by these first glimpses of a new awakening is the fact that a scheme so moderate and inexacting should still be held up by the Government of India for further examination and scrutiny. It is now nearly two years since the Adarkar Report was published and well over a year since its principles, including the principle of contribution by employers and workers, were fully accepted. But debate over refinements continues and no progress has been made because the Government of India and Provincial Governments have not accepted their obligations under the Scheme. That the State should share with employers and workers a common liability for health insurance is a principle which in the West is nowhere now denied and yet a vast volume of correspondence continues on the question of Government participation as proposed. It seems increasingly clear that the Labour Department of the Government of India is unable to secure the assent of other Departments to the acceptance of the financial implications of the scheme; if the Government of India desired to shirk their own obligations while attempting to enforce those of employers, they have clearly been hoist with their own petard. For it has now become obvious that the Government of India with the beam in their own eyes are in no position to point to the mote in the eyes of

employers; and there is increasing suspicion both among employers and workers that as the Government of India do not propose to observe the salutary advice which they accord to others, they are hardly the best instrument for prescribing wise counsel to industry. It may be that the delay in giving effect to this scheme of health insurance is due more to the insurmountable obstacles of red tape than to any weakening of resolve in the Labour Department of the Government of India. But delay breeds doubt and there are certainly signs that the Government of India is far less anxious to accept commitments than to prescribe them to others. Unless bold leadership is now displayed distrust will continue to grow; this would be an evil in itself, apart from the loss of face which the State would incur by its failure to discharge a foremost duty as the country's largest employer. In an age of planning, more than in any other, the State must retain the fullest trust of its people. It may make mistakes but, like Caesar's wife, it must be above suspicion.

No one can feel happy about the progress of industrial welfare in recent years. Learned reports such as those now being issued by the Mica Commission and the Rege Committee reveal conditions with which in substance we have been long familiar, certainly since the Report of the Royal Commission on Labour. Factfinding is a useful and profitable pastime but it must not be made the excuse for dilatory action or for no action at all. There is enough evidence on record to promulgate extensive social welfare legislation which would help to abolish some of the worst abuses which even the Royal Commission on Labour inadequately condemned. That we should choose the

lighter path of instituting fresh enquiries is more a measure of our preference for the easier course of inaction than our passion for a strict adherence to the truth. With a statute book in many respects a century behind European practice we still hedge every moderate regulation that is passed with a formidable list of exceptions which at the outset kills nearly all the good the Act contains. The recent Amendment to the Factory Act which provides for holidays with pay is only a single illustration of a general tendency. It was an express wish of the Legislature that at least ten paid holidays allowed in a year should be at one stretch; this was a wise provision because at least a week is required for a journey to and fro and for the minimum period of change necessary to refresh both mind and soul. There is, however, under a subsidiary section, power granted to Provincial Governments to give exemptions and there are few associations of employers which have not sought exemption on the plea that their members do in fact allow ten paid holidays or more spaced or staggered throughout the year. So far as the labourer is concerned he does not always understand the difference and his leaders are often too preoccupied with other matters to give to such problems anything like the attention they deserve. Employers and the State will not in fact get better value out of a worker for having denied him ten days' holiday all in one piece; they are cheated in the end through sickness or bad work. The net result is that both labour and the country lose with no one to gain. No voice is raised against a foolish thing which has robbed us all; and the exemption whether enshrined in the Act itself or in rules acquires the sanctity

of law telling generations to come how small and petty we could be in little things.

We cannot afford in the next few years or at any time in the future to adopt an attitude of petty bargaining in matters of industrial welfare. Today it is more necessary than even before that we should enter into the minds of our workmen and understand the simple wants which lie behind their complex and often inexplicable behaviour singly and collectively. The greatest of these wants in other lands is security and the demand for security will soon be made with added force by our own labour.

It will not be possible for us to introduce in India in the next fifteen years an ambitious scheme of social security on the lines of advanced countries; but we are none the less fully committed to social security which is implied in our recognition of a national minimum. Complete security is, of course, everywhere unattainable seeing that in the midst of life we are in death. But our plans profess to be based on the determination to secure for each and every one of our people the minimum standards proposed. The full implications of this commitment have nowhere been analysed but this will make no difference to the fact that our plans will be judged by the degree with which they achieve this accepted end. If the difficulties are insuperable, we should not have rashly held out to our people promises which we are powerless to fulfil. Labour has every right to demand that the minimum standards in industry shall not fall below those suggested for the whole country; and industry cannot plead that in its own sphere it has no obligations to attain standards which are prescribed for the country at large. If anything the standards set by

industry for its workers must be always above the minimum; for the minimum is only a poverty line and industry, which is to be the main source of the country's wealth, must seek everywhere to rise far above and beyond it, seeking honour in the distance which divides its minimum from that of the country as a whole.

There are simple means by which industry can help to promote a feeling of security; assurances that workers will not be summarily discharged without previous warning, a system of provident fund or profit sharing after long service, a suitable pension scheme; all these are factors promoting security. Labour is now well disposed to accept them as an earnest of the greater security which is to come. And it would not cost industry much to grant them; for their cost would probably be recovered many times in the avoidance of labour disputes and better relations leading to a greater output of work generally. The Indian Jute Mills Association with commendable foresight has introduced a pension scheme which is certainly capable of adoption in all our organized industries. There is also a great deal to be said for making workers shareholders after a fixed period of service in their concerns so that they feel that ownership is not completely vested in another class and they have a personal interest in hard work which they may put to good account. It will not be easy to do everything at once; industry will have to feel its way for some time but it must fix now and for ever its new direction, making it clear that on the eve of planning a new spirit will inspire industry as well as the country as a whole. Then only can industry claim, and also receive, a full response on which it can commence to rebuild the sorry scheme of things nearer to the heart's desire.

CHAPTER V

ORGANIZATION: PUBLIC OR PRIVATE?

THE twin problems of organization and industrial management are, perhaps, the most thorny questions in the whole field of industry. Behind them lurk the clash of classes and the passions which surround the perennial struggle for power. Management is thus not a matter for industry only; it abuts on the difficult frontier between industry and politics. Recognizing the full implications of this fact, industry must seek forms of management which, even if they do not conform to the strict requirements of industrial efficiency, are not out of line with the prevailing temper of political thought. The public mind expresses itself with no single voice and the general will is nowhere clearly written so that all who run may read. But one broad fact is clear enough. The age of unrestricted private enterprise is dead beyond recall and the current flows strongly, even if a little fitfully, towards a larger and even larger measure of State control. Whether this constitutes a happy portent for the future may, perhaps, be debated; but it would profit us nothing to pursue the argument further. We may in our hearts regret the passing of the opportunities which an age of free enterprise appeared to give to industrial initiative; or, otherwise disposed, we may rejoice in its demise seeing particularly in India that free enterprise has done relatively little to advance the life of the common man. But we

cannot now recall the forms of thought of another age; bygones are for ever bygones. We may, however, while time still holds, draw from the experience of the past valuable lessons to assist us in devising for the future a pattern of industrial organization more suited to the temper of our time and the peculiar genius of our people. In this task we will have much to learn from other lands with whom we share both contacts and similarity. But we need not blindly copy them in every detail; we have our own institutions which, like the Managing Agency system, are peculiar to ourselves. If only because they have survived, there is virtue in indigenous growths. We should attempt to incorporate them with our traditions in the new life which we are seeking to create. Organization and management both involve leadership and all leadership which is effective has its roots sunk deep in native soil.

State control is not, as is too often believed, a new arrival in our midst. It is part of the great current of Indian history from the earliest times; to neglect the significant part the State has played in economic matters in the past is to ignore one of the proudest facts of our history. Collectivism in Western countries is a plant of comparatively recent growth although deriving relationship from the tradition of State paternalism of the later Middle Ages. Indian collectivism is older than Asoka and, while its influence has varied greatly with the years, it was, until the era of British rule, an abiding factor in the country's economic life. The period of laissez-faire of the last century was only an interlude now happily ended and we return in the age of planning to a tradition familiar to our people and congenial to their thought.

Even in a period of laissez-faire, the State, through the various Revenue Departments of Provincial and State Governments, functioned as the largest Managing Agency in the world. In industry only its presence was withdrawn but its main lines have still been there, clearer, perhapsat some times than at others, but visible even when inactive as the eternal man in the moon.

The new powers sought by the State to effect economic planning need not, therefore, cause us disquiet. Direct intervention by the State in the economic life of the country is no new phenomenon although the accomplish; ing of set targets in every field may be a novel application of an ancient principle. This principle itself was fully accepted in India two thousand years ago before Western political philosophy could find justification for it in a mythical social contract or in the strange doctrine derived from Hegel that the State was God walking upon the earth. What we should oppose in the State is not the arrogation to itself of extensive powers of control and direction but the arrogation to itself of duties which it is unable in fact to discharge.

The crucial test of the State's activities in the economic sphere is whether its encroachment on individual rights is directed to the public good and fosters the welfare of all. The mere fact of inefficiency is one factor but only a minor factor; for inefficiency is in any case a fault which may be corrected. The charge that private enterprise is essentially shortsighted and rapacious is also not conclusive for both shortsightedness and rapacity may be cured by benevolent State restrictions. These interested arguments against State control on the one hand, or against private enterprise on the other, do not in themselves settle the

issue; nor indeed, can the issue be settled summarily one way or the other. Each industry must be examined separately; in one case both State ownership and direction may be essential; in another both may be left to private enterprise; and betwixt and between there will be industries which, depending on their special circumstances, call for a greater or less measure of State ownership or control. The problem of industrial organization in India as elsewhere cannot, therefore, be settled briefly by an inviolable rule of thumb; we must examine each case on its own merits and, testing all things, hold fast to that which is good.

There are a few industries in which the problem of State operation is happily already settled. There is general agreement that Ordnance factories and all munition industries should be operated by the State and not by private enterprise. This has not been a universal practice in other countries and the criticism of private enterprise has often been made that in its relentless search for profit, it has both initiated and fostered wars, the nefarious activities of Sir Basil Zaharoff and of the Krupps of Essen providing familiar proof. It is not necessary to support or disprove this assertion; for there is now general agreement that for purposes of security it would be wiser to keep all munition industries under public operation. Wars have, however, by no means been abolished by the nationalization of munition industries, which fact appears to indicate that private munition makers were not the prime villains of every piece; but this does not destroy the case for nationalization. The production of munitions is in any case primarily a war activity and by common agreement the operation

of war activities of this class is best vested in the State. In India the principle has been hallowed by long practice; so far as the Ordnance factories and strictly munition industries are concerned private enterprise has been well content to leave them wholly to the State.

The case of a few industries which are not directly classed as munition industries but have potential war capacity is not so easily settled. The heavy chemical industry and the iron and steel industry are cases in point. Here the issue must be settled by reference to the end which the industry purports to serve: political security or economic efficiency; if the former, there is a prima facie case for nationalization; if the latter, there is a possible case for private enterprise. In a period of peace, the end of economic efficiency would appear to command larger support; for the products of both the heavy chemical industry and the iron and steel industry are required for civilian purposes on an extensive scale making the pricefactor a vital issue. In war, the need for nationalization will depend on the attitude of producers; if, as is likely, they co-operate fully with the Government, there is nothing seriously lost by leaving management in private hands. The danger only arises when these units become the property of sectional interests opposed to the State; this is a contingency on the face of it so unlikely that nationalization merely to avoid it is a costly exercise in statecraft without statesmanship. For when nationalization can in any case be effected overnight by one sweeping ordinance, the path of wisdom would appear to favour drastic action being withheld until its exercise is imperative. It would be a mistake for the State in fright to invoke a dubious remedy in circumstances never likely

to prevail; for with the sword of Damocles hanging always over it, private enterprise is never likely to be guilty of conduct calling for the maximum penalty of the law. And the longer nationalization is deferred, the more would the State inherit through the initiative of private enterprise; it is wiser to gather ripe fruit from a tree than in anger to slash hard at its roots.

There remains, however, a subsidiary danger of private enterprise in large scale basic industries and this arises from the exercise of monopolistic power either directly, the number of units in some sections being small, or indirectly, when the number of units is large, by a tacit understanding among producers to fix prices and sales policy with the object of exploiting fully their privileged position. That this danger is real has been proved by the experience of other countries in particular in the United States where it has called forth vigorous anti-Trust legislation. But nationalization is not a remedy even for this danger; monopolies are not abolished but sanctified by nationalization; all their evils, unless the profit motive is abandoned, accrue to the State. A nationalized industry is not less a monopoly because it is State-owned; indeed, it is sometimes more dangerous both because of political intrigue and because there is no appeal to a higher authority when it abuses its power. And if it is not run as a commercial concern the danger is in some sense even greater; for inefficiency will merely result in the losses due to bad management being transferred to the general taxpayer, the unfortunate residual legatee of all the nation's failures. This does not imply that the State must stand helplessly by while private enterprise exercises all the privileges of monopoly. The

State will have to interfere firmly in two directions; firstly, to fix targets or demand and secondly, to fix prices; in these two keys to every situation planning provides the State with ample powers to correct the abuses of monopoly in our basic industries. If the State is incapable of working an inexacting system of control, it is far less likely to find in State operation the miraculous alchemy which at one touch will turn all the baser metals into gold.

The argument so far developed is not opposed to nationalization in all industries; it is opposed to nationalization when the benefits expected to accrue from it can be obtained equally by control. There are, however, some industries in which private operation is so inimical to the public good that mere control can never be completely effective. The most important of these industries in India is coal mining. The question is not one of means but of ends; the national interest requires that our coal resources, particularly our coking coal of which we are in relatively short supply should be conserved and utilized in the most economical manner not for profit either now or hereafter but for assisting most effectively in the long-range fulfilment of the nation's industrial needs. It is possible to claim that private enterprise is an efficient agency for coal raising; but even when it is more efficient in the technical tasks of mining, it is always likely since it is pursuing the wrong end to be more predatory. It is a matter of no consequence whether coal mining in itself earns a profit or a loss; what is vital is that all industries taken together must over the long period benefit from the method and working of our limited coal resources.

Private enterprise in the coal industry, however enlightened, does not think in these terms nor, indeed, is it ever expected to do so; it is, therefore, no condemnation to say that it is an unsuitable agency for the purpose. It has accomplished valuable work in the past not always on lucrative terms; it is apparently in a position in the future to carry through further salutary changes. For all of these it deserves the nation's thanks but it cannot become the keeper of the nation's conscience; for lacking direction it must prove a wayward and faltering guide. It may have other rare and estimable virtues but at the crossroads we seek direction first and the pursuit of profit takes us along the wrong road. The faster we speed along this road the further we are from our cherished goal and the longer shall we be in reaching our journey's end.

The nationalization of the coal industry, although it will not constitute a very deep inroad into the preserves of private enterprise, will not awaken any enthusiasm in commercial circles and a campaign has already been begun to resist it even before it has been proposed by the Coal Enquiry Committee now (July 1946) examining the problems of the industry. Facts have a curious way of giving place to opinions strongly urged but two facts which concern the coal industry are fortunately unassailable. The first of these is the severe shortage of high quality coking coal both absolutely and relatively to our ironore deposits. Our present deposits of coking coal available for iron smelting are estimated at about 200 million tons in all. On the basis of an annual consumption of three million tons a year this would last a bare seventy years against estimated deposits of 20;000 million tons of iron-

ore which would last hundreds of years. Even if we assumed that the life of our coking coal deposits could be doubled by compulsory sand-stowing we would be able to smelt with existing coking coal deposits only about two per cent of our iron-ores. If we are to develop our iron and steel capacity to roughly five times existing production, our coking coal deposits may last us about thirty years. This should be a matter of the gravest concern but it is at the present time being treated with the utmost levity. Of our annual coal production of all grades of about twenty five million tons per year about twelve million tons constitute good coking coal which should be reserved in common wisdom for iron smelting. But only about three million tons are so used leaving nearly nine million tons to be squandered criminally for non-smelting purposes; our railways alone consume more than eight million tons of this coal every year. When we remember that railways could use soft coke or inferior grades of coal and that the burning of coal in a locomotive boiler wastes 96% of its heat energy and all its derivatives such as metallurgical coke, ammonia, naphtha, benzene, toluene, tar and its progeny of dyes, we realize only dimly the grievous crime that is being perpetrated against the country.

The second fact to which attention needs to be drawn is even more depressing than the first. The working of coal mines has in the past been so careless and unscientific that it has been computed that for every ton of coal brought out of the mines nearly an equivalent quantity left underground in pillars, barriers, roofs or floors is actually lost either directly or indirectly by

fires and subsidences in working. Unless vigorous action is immediately taken we shall continue to lose the use of half of our meagre deposits by mere passage of time without deriving any benefit whatever from its loss. No one can realize the full implications of these facts without an outburst of indignation that the country should be so badly served by those to whom it has entrusted this asset of great worth. Private enterprise may go on pleading that nationalization will be a disaster; that public operation must necessarily be more wasteful and uneconomic; but public opinion is not likely to be misled merely because at the top of its voice the pot should call the kettle black.

We may in our hearts entertain no high regard for public operation of industries. The fact that the worst sinners in the callous waste of coking coal are our railways certainly does not indicate that public authorities are necessarily greatly concerned about the public good. But we must face the compelling fact that the rationalization of the coal industry cannot be accomplished by private agencies. The widest powers will be needed to acquire mineral rights unreservedly for the State. Ample powers will be needed to coerce producers; even more widespread action will be required to enforce economy on wasteful consumers. The rationalization of the industry will call for every weapon in the armoury of the State. Private enterprise has neither the means nor indeed the will to undertake this task; it would, if it were wise, retire with honour from the field.

The problems of our other mining industries are not on all fours with those of coal. Even considerations of conservation do not universally apply; the need for

conservation depends on several factors which vary from mineral to mineral as well as from country to country. If a mineral is mined only in small quantities and if considerable quantities have in any case to be imported, there is no purpose in long period conservation. In a few cases, such as gold, we should even proceed as rapidly as possible to expend our available resources. From the point of view of rapid industrialization, it would profit us far more to exchange our gold for capital equipment than to conserve it in the bowels of the earth. Even from the point of view of strictly commercial considerations, it may be wise to sell as much gold as we can at the favourable prices prevailing. The course of bullion prices is almost impossible to predict but there are signs that existing favourable prices cannot last for ever. The worship of the golden calf embodied in the idol of the gold standard has happily declined considerably as an official cult. It is true that gold continues to exercise its strange fascination over men and the tendency to hoard bullion shows no signs of abating; but we may hope in a more democratic age for more plebeian tastes and a greater readiness to seek ornament outside the precious metals. They may even lose something of their quality as a store of value. In any case their conservation is not an end of mining policy. Provided methods of working are modern and scientific and secure the maximum output in the long run as well as low cost of production there is much to be said for leaving gold mining and similar occupations in private hands subject to the usual conditions involved in the grant of a mining lease by the State.

Perhaps the only mining industry other than coal which calls immediately for widespread State intervention is the mica industry in which India enjoys a virtual world monoply. Nature has been gracious to us in the bounteous mines of Bihar and the less noted but amply stocked mines of Rajputana. A gift of God so generous might well have been handled with greater trust. The report of the Mica Enquiry Committee which has just been made public reflects no credit either on the licensees who have often violated the conditions of their license or on the Mica section of the Geological Survey of India which is in the main responsible for direction, inspection and enforcement. The farreaching recommendations of the Reuben Committee are important not only as providing a constructive approach to the new organization of the mica industry; they embody general principles of State control both in respect of licensing and of marketing which are capable at least in the mining industries of wider application. It may seem curious that the Committee after proposing numerous Boards and Committees should stop short of what would appear the logical goal of nationalization. The answer is to be found in one simple fact. The State-owned and State-managed mines are by no means paragons of excellence and share with privately managed mines many of their vices while not enjoying some of the virtues of the best. And existing failures and, in particular, the problem of mica piracy, lie largely at the door of an enfeebled and ineffective State. Nationalization in one fell swoop would, therefore, be no unmixed blessing and it would confront the industry with far more difficulties in the short period at least

until State machinery is thoroughly overhauled. It is also to be remembered that not all our mica mines are sources of unending profit. The State would inherit the bad with the good and what now appears a profitable undertaking may soon wear a different complexion. The possibility of synthetic substitutes has also always to be considered. Mica now glitters but it is well to remind ourselves that all that glitters is not gold.

The hope that nationalization will enable the State to reap the full rewards which now accrue to private enterprise is apparently a good reason for advocating nationalization in important consumption goods industries such as cotton, jute and sugar. At the present time the spectacle of large profits in these industries appears to indicate that the State could enrich itself considerably by simply stretching forth its hand and taking possession root and branch of these great industries. This is, however, a grievous error. Unless we were to go communist overnight, these industries could only be taken over on the payment of reasonable compensation based on the market value of each concern and at this price the State would not merely not gain but might lose heavily on the transaction. The purchase of these industries at present prices would mean that shareholders of concerns in these industries would receive compensation either directly in money or indirectly in Government paper sums at present inflated values. Assuming that profits did not decline the return which the State would receive, after making provision for what it now receives in taxation, would be little more than the yield on Government paper and it would pay practically all this out to stockholders; if by any chance profits declined, the State would be a loser for it would not be able to reduce the interest it would have to pay to its stockholders. It is only in the unlikely contingency of profits uniformly advancing over the industry that nationalization would prove a financially paying proposition. When it is remembered that we are living in quite abnormal conditions the chances of average profits in the future exceeding present figures must be considered remote. If nationalization is effected now, the State would come in on the crest of a wave and would then fall heavily into the oncoming depression having loaded itself with capital obligations at the peak. The future would indeed be largely of its own making but, taking fair and foul weather together, it is extremely likely that nationalization at the present time would only saddle the State with a millstone round its neck. And the beneficiaries of this dubious transaction will not be, as is popularly supposed, the people at large or the general taxpayer but the shareholders of existing concerns. For without initiative or risk they will have acquired Government bonds entitling them to a fixed return on their compensation in perpetuity. In a manner far more inexcusable than at present capital will than in truth be the tyrant of the people. For living safely on the labour of others, the possessors of State industrial stock will enjoy a return enabling them generation after generation to draw tribute from their fellows while they themselves may dwell in idleness and sloth.

It is true that if the State nationalized all these industries without compensation it could appropriate profit for itself without benefiting existing holders of capital. This is in fact the communist prescription and

it has at times some superficial attraction. But it could in any case only be justified as part of a larger scheme for the abolition of all private property, the full implications of which will carry us far beyond the confines of industry. In India perhaps more than in any other country in the world there is a devotion to private ownership, particularly in the land, which it will be almost impossible to break. The summary cancellation of all rights particularly those relating to land would involve so violent an upheaval that anarchy would prevail. There are some persons, apparently not without reason on other matters, who feel sincerely that this is a consummation devoutly to be wished. It is, perhaps, fortunate that our destiny does not lie in their hands.

The advocacy of nationalization merely to appropriate profit would appear to be based on the misapprehension that the profits to be reaped in these industries, particularly cotton and jute, are uniformly high. Over the long period this view is not supported by the facts. In the cotton textile industry the Economic Adviser's index of profits with 1928 taken as base year was 37.9 in 1930, 33.7 in 1934 and 154.6 in 1939. The peak figure of 760.7 in 1942 represents a wholly abnormal situation which disappeared as rapidly as it arose. Profits are still high but they are not wickedly high and over the last twenty years average profits in the cotton textile industry have not been so large as to call for any special comment. Profits in the jute industry have been, over the long period, even less noteworthy and the industry, though it fared generally better in the inter-war years than the cotton textile industry, has had repeatedly to face its own special difficulties, one of the most serious of which

is productive capacity far in excess of actual requirements. The profits earned by the best mills both in cotton and jute may seem unduly large but these are hardly indications of general trends in either industry. If the State had taken over both industries in the period of the great depression it might, perhaps, have done well on the deal; and private enterprise would have probably blessed it for taking a troublesome charge off its hands. If we are again overtaken by a great depression, nationalization may, perhaps, again prove a profitable undertaking. But then voices, unwise and unimaginative, will be raised against the folly of allowing private enterprise to draw the juice from the fruit and then throw it back on the State only when overcome by the prospect of unending losses. They would much rather that the State seized these industries while they prospered and tossed them back to private enterprise only at its convenience; as though private enterprise would gladly acquiesce in this profitable game of heads I win and tails you lose.

The argument for nationalization of our consumption goods industries cannot indeed be pressed merely on the ground of their present high profits. There are, however, other good reasons for advocating it though they are now seldom advanced because practically all that they are intended to secure is already obtained by the widespread systems of control which are at present at work in all these industries. There are a few voices, now somewhat more hesitant than a decade ago, that claim that free and unrestricted competition can alone provide salvation for these industries. So far as jute and cotton are concerned, the record of private competitive management cannot be described as universally bright. Our jute mills with

every advantage in respect of location near raw materials are still unable to compete with Dundee and the average productivity per man-hour is reckoned at only a fourth of the Dundee figure. The industry as a whole has failed to grapple with its excessive productivity capacity, and fearing to face a major surgical operation, has feebly sought, through the Indian Jute Mills Association, to limit output all round by voluntary agreements reducing working hours. In the face of these undoubted failures, a claim that private enterprise in the jute industry has done a great service to the country is likely to be faced increasingly with derision for restrictive Capitalism, whatever its virtues in tiding over a difficult situation, is certainly now out of fashion. It may, perhaps, be doubted if a nationalized jute industry would have done much better and it is certainly true that the Indian Jute Mills Association has functioned merely as the mouthpiece of the Government which still (July 1946) fixes prices and allocates materials to the industry. But it will profit private enterprise nothing to claim that Government could not have done better; the case for State ownership and control is in present circumstances considered amply proved if only State management is adjudged no worse.

The achievements of the cotton textile industry are, on the face of the facts, far less open to criticism. The remarkable increase of annual production from 3600 million yards of cloth in 1939 to 4800 million yards in 1945 was accomplished with the aid of little additional machinery and almost without Government assistance and indeed in spite of it. Costs of production have apparently been kept well in check and now that Japanese.

competition has been eliminated the industry should be able to make a great step forward. The control exercised through the Textile Commissioner and the Textile Control Board has not always been farsighted and imaginative but it has satisfied the broad ends it set out to attain. Except for a serious blemish on its reputation as a result of the exactions which it unscrupulously made on the consumer in 1942 the cotton textile industry has emerged from the war with a record of which it has no reason to be ashamed. It is almost certain that a nationalized cotton industry would have done worse. In the area of distribution which the State made its own there was almost continuous confusion and failure; and the State-initiated scheme of standard cloth was by no means a conspicuous success. A burnt child shuns the fire and there are few people today acquainted with all the facts who now wish ardently for all-out State administration of the country's cloth.

The case of sugar is far less favourable to the cause of private enterprise. After a brief inglorious attempt to run the industry on its own, the sugar industry eventually accepted full Government regimentation exercised at the discretion of the Sugar Controller who now fixes not only prices of sugar and cane but almost every detail of the field. The control of sugar, notwithstanding a flourishing black market, is recognized as the most successful inroad of the State into the realm of private enterprise. And private enterprise by the measure of its own weakness has far less claim in this industry to ask now that it should be left to its own devices. If the sugar industry could not put its house in order in war, it has small right to claim the privileges of

unrestricted freedom in the more difficult conditions of peace.

There are other industries in which the successes or failures of private enterprise may be cited; they do not all tell the same or even a similar tale. And it would not be possible to conclude from their examination that nationalization should be hastily adopted or indefinitely deferred. There is everything to be said for pursuing a middle course. The munition industries and the Railways are already nationalized; one from the beginning, the other in recent years. They are, neither of them, dashing examples of industrial efficiency. On the other hand, private enterprise in coal, jute and sugar has not proved itself a triumphant success. There is ground for the view that nationalization would benefit the coal industry and at least a vigorous form of State control assist both jute and sugar. And the need for planning implies that there will be some control in all industries. No hard and fast lines can be laid down for all industries or for any industry; their problems like ours will grow and change with the years and our capacity for management will depend on the ability with which we can adapt ourselves to the rapidly changing circumstances of each.

In the interval while we pause to think and consider there is everything to be said for trying out in selected industries State operation alongside private enterprise. The supreme disadvantage in nationalization is that while it is generally recognized as an experiment it is seldom possible to retreat in the event of failure. The prestige of the State is involved; and an admission of failure is calculated to shake public confidence in all its works.

In a strange inexplicable way State operation, however conservative, has come in the public mind to be associated with progress and any proposal to return to private enterprise would immediately be branded as retrograde. There may in fact be no justification either for the curious fear of losing face or for the even more unwarranted view that the State is industrially more progressive than private industry. Great men, like Lenin in Russia, have retreated and gained both in prestige and efficiency in the process; the policy of 'Three steps forward; two steps back' is in the long run more truly progressive than a headlong plunge from which there is no retreat and which may end in disaster. Only the future can tell, however, how ready we shall be to act thus with open minds.

Meanwhile we have in the sphere of public utility undertakings some comparative estimate of the probable efficiency of private enterprise and corporate management under similar conditions. The telephone services in Bombay and Calcutta are, it must be admitted, not triumphant indications of corporate efficiency. On the other hand, in some respects, particularly in electricity supply, corporate and State agencies have proved themselves both prompt and efficient. It would do both agencies good to rub shoulders with the other. The presence of the State will curb monopoly practice; and the presence of private enterprise may curb Government waste and inactivity. The limited evidence available such as that relating to the working of the Tata hydro-electric system against State management would appear to indicate that private enterprise still enjoys some advantage in efficiency but

the field would appear to be narrowing and as State machinery is further developed it may, perhaps, soon become more nimble and swift of foot. In these industries such as gas or electric supply where no rapid changes of demand are involved there is no reason why private enterprise should always play Ariel to the State's bad Caliban.

But if the State is to discharge these functions with the same or greater efficiency than private industry it must train its personnel for the task instead of as at present pitchforking individuals haphazard into positions of industrial responsibility. The assumption that an officer of the Indian Civil Service trained for revenue administration and the maintenance of law and order is competent to undertake the administration of industry at a moment's notice underlies the dismal failure of controls in the last few years. It is no reflection on the particular officers chosen that they have not done better; being human, they were not gifted with all the vision and knowledge of the immortals. And it is a tribute to their average quality that the country has not fared worse. But a trained economic civil service whose personnel is at every stage associated with the problems of industry is the only answer to the country's needs. To undertake the tasks of nationalization without this personnel would be to place the cart before the horse. For it is to be remembered that the State cannot command all the managerial and directing ability now in industry. Not all of it will follow meekly where the State leads and even industrial conscription may prove an ineffective remedy. If the State is to build its industrial policy on the new foundations of extended control and eventual nationalization it will need to build without delay the machinery with which alone it can accomplish its task. To build our industrial future without trained personnel will be to build upon sand. For the life of industry is men, as it is men and not fair walls that make a city.

CHAPTER VI

INDUSTRIAL MANAGEMENT

THE rejecti all-out nationalization as a solution, ate future, of the problem of industrial organization does not involve, by a process of elimination, a return to free enterprise. If planning is to be a reality, free enterprise in the accepted and traditional sense will disappear altogether. The form of planning proposed may, perhaps, for want of a better name be called Planned Capitalism but it is far removed from free enterprise; it is combined public and private enterprise circumscribed by every regulation which the execution of a plan necessarily implies. Certainly it involves the fixing by the State of demand factors in every industry, the logical outcome of a fixed target in every field; it involves to a considerable extent the public regulation of supply since the allocation of raw materials will in the main be made by a central authority. It may involve the control of prices either directly by the fixation of maximum and minimum prices or indirectly by the regulation of both supply and demand. The logical implication of these regulations would make our industrial system very different from Capitalism as it is ordinarily understood. But State regulation will not end even at this point. It is almost certain that there will be a system of industrial licensing fixing in each industry not only the number of concerns but also their location and size. It may be necessary both

as a weapon of industrial policy and as a means of effective economy in transport to zone off markets either directly by State directives or indirectly by the manipulation of railway rates. All the trappings of competitive Capitalism, publicity and advertisement, sales organizations and the rigging of markets may then undergo considerable modification. In both fields, the field of production and the field of sales, the problems of industrial organization will differ very considerably from what they are today. The doctrinnaire Socialist may complain that as private profit has not been abolished, the old demon will still ride upon the sails. And the doctrinnaire Capitalist may complain that private enterprise, hindered thus in all its doings, will for a meagre and uncertain reward bear meekly as the ass all the burdens of the State. It may, perhaps, be debated whether the system leans more heavily towards Socialist or towards Capitalist planning but it matters little what it is called; a rose by any other name will smell as sweet. What is important is that our system of industrial organization should be able to harness every useful element in the country's economic life to the exacting tasks that confront us all. The retention of private profit, good or evil in itself, is necessary as a concession to human nature; in the short period with which we are here mainly concerned we need all the private initiative we can collect; for the State is not yet prepared even for the discharge of its full routine obligations, far less to take on large new and untried ones. But while private profit still functions as a spur it will nowhere in the midst of State regulations have the opportunity to cause us hurt; although it will in

large measure pay the piper it will be the State which will call the tune.

The changes in the function of private enterprise under planning will be reflected in the purpose and conduct of industrial management. These changes will be most prominent in what may be described as the sphere of external management in which each concern will have to undertake new obligations in relation firstly to the State and secondly to the industry of which it forms a part. There will be need as always for improving internal management but this need will not arise because of planning which does not involve any interference with day-to-day factory administration. It may be doubted whether the broad division of functions too between the agencies responsible for internal management will be considerably modified although a wider delegation of powers to the Works will be inevitable as the scale of operations or the number of units managed by a single firm increases. At the present time this division between the Head Office and the Works is clearly drawn. The Head Office of the Managing Agency, or the Managing Director in other cases, undertakes all the nitial work of setting up the concern, the raising of the necessary finance, recruitment of senior personnel, purchase of machinery and equipment and the fixing of the broad lines of production. The scene shifts to the Works when production is commenced and then the main problems of day-to-day administration, the regulation of production, the recruitment and control of labour and the tasks of scientific management all devolve upon the Works. In a sense the Head Office remains the directing authority as it controls finance

and with the power of the purse keeps a hold upon all the Company's doings. But the heart of the concern is at the Works; even when a decision is made at the Head Office by Managing Agents or Directors it is generally made on material supplied by the Works where also all execution resides. By far the larger share of internal management is discharged by the Works and in proportion to the powers that it exercises the Works must bear, for the success or failure of the enterprise, their full and fair share of praise or blame. Their responsibility for industrial efficiency is all but complete.

This distinction between the Head Office and the Works, obvious enough in itself, is vital in analysing the weakness of industrial management. The loudest criticisms which have been levelled against private enterprise in India are directed not against the Works, which are primarily responsible for industrial efficiency and for the quality of the product, but against the Head Office or more particularly against the Managing Agents as such. These criticisms are not always consistent. When we advocate nationalization we generally assume that factory administration can go on unchecked after the happy removal of the Head Office which implies that management vests in the Works; but when we blame existing industries for gross inefficiency, we find it convenient to direct attention not to the Works but to the Head Office, the repository, as it is supposed, of ignorance, fraud, rapacity as well as of all the evils of mismanagement. Both arguments are usually driven hard together in double harness and no voice is raised against the inconsistency involved. Indeed as the purpose of both arguments is not an analysis of our industrial weakness but an attack on universally unpopular Managing Agents and a defence of State intervention, it is an added recommendation that the argument accomplishes both tasks at once. Where two birds have to be killed, it is sound strategy to kill them if possible with one stone.

If, however, we are seeking not the form of our fancies but the substance of truth on which a new and vigorous foundation may be built for industrial management we will need a far more searching examination of our industrial structure. Facts are intractable things and must be faced squarely at last. And the fact which dominates Indian industry almost completely is the weakness of industrial initiative in almost every field. Even with returns estimated at over ten per cent, industrial enterprise has been notoriously shy and outside the Managing Agency system it has been almost completely non-existent. We may explain this fact as we will; for it is probably true that every fact, like every effect in preatomic physics, has a cause. But the brute fact is there and cannot be dispelled by a mere explanation. In the next fifteen years we will need industrial initiative on a vastly extended scale; our average industrial output is to be multiplied fivefold and all this feverish activity is to be accomplished in about a fifth of the time that it has taken to build up existing industries. The coefficient of initiative may, therefore, be reckoned at twenty-five times what it averages over the last seventy-five years. We may assume far greater enterprise on the part of the State; we may make this act of faith without misgiving for although the State's enterprise in the past has not been very glorious, a vigorous State machine is implied in

the acceptance of planning. We may assume with less justification far more vigorous enterprise on the part of corporate agencies aided by finance from a Central Industrial Financing Corporation as well as by the banks. We may assume every industrial agency within reason that can be brought into being in the next fifteen years. But without the Managing Agents and their resources it would be not merely a hard but an impossible task to accomplish the industrialization which we have so spaciously planned. There is everything to be said for developing other forms of management less open to criticism than the Managing Agency system; but there is nothing to be said for abolishing the Managing Agency system until alternative agencies vigorous enough to enable us to fulfil our plans are already in the field. We may dislike its look but we would be foolish to cut off our nose merely to spite our face.

The universal prescription 'Off with your head' of the Mad Duchess in Alice's Wonderland may be harmless enough in Wonderland but it is attended by serious inconveniences in real life when the head happens to be equipped with certain qualities not easily discovered elsewhere. Apart from its special place in providing industrial initiative, the Managing Agency system has two outstanding virtues which make its retention at the present time essential. The first of these arises from a gap in our industrial structure which prevents us from reaping the full advantages of central management of a group of connected industries. The most significant development of the last fifty years in the advanced industrial countries of the West has been the integration of industries in cartels or combines with the object of

exploiting the advantages of large scale economies not only in production but also in marketing and sales. Public opinion, always fearful of the ravages of monopoly, has generally looked upon these growths with misgiving, feeling instinctively that they fostered, with the decline of competition, greater inefficiency, and promoted, with the concentration of power, wider abuse of monopoly privilege. In other countries, particularly in Great Britain and the United States, it is now being increasingly realized that some of these combinations far from being enemies of the community are spontaneous and healthy offshoots of an industry efficiently run and that the. savings effected far outweigh the possible evils that they engender. In India we have not yet reaped in any sense the advantages of large scale enterprise; our average units are not merely small and, in some cases, absurdly small; even our largest units do not attain anything like the efficiency of the larger industrial units of the West. This serious defect could to some extent be made good by central management, for example, of a group of textile mills where central purchase in bulk of raw cotton and central sales of cloth would give the group some of the advantages which accrue to similar units in other lands. Or a vertical combination of units assisting one another, such as units making parts of motor cars, could be placed under a central managing unit so as to co-ordinate the activities of various groups together. These economies at the present time constitute the most vital factor in modern industrial and commercial organization and it is from them and notifrom a recrudescence of wild competition that the ordinary consumer stands most to gain. The only means by which we can at present attain these

economies even if in a limited and inadequate way is through our Managing Agency houses. They provide central management both for horizontal and vertical combinations. They have much to learn from abroad and will need their full share of wisdom and of grace. But it is far easier to build on their foundations than to attempt in this time of haste to reconstruct our industries from their base with new and inexperienced hands.

The second advantage of the Managing Agency system which we will need carefully to retain arises from the distribution of risk and the pooling of personnel for common tasks. Because of their vast resources the Managing Agents themselves have been able to sustain concerns in periods of crisis and disaster; they have willingly foregone their commission but it is not this act of self-sacrifice but the security which they provide to their concerns which is a long-run gain to Indian industry. If in every period of depression these concerns had been forced to close as concerns administered by smaller agencies, the country's organized industries might well have suffered a mortal blow. But their services have extended far beyond finance in times of strain. Because they command the best ability and are prepared to pay its price they are far better equipped with technical personnel and far readier to pay liberally for industrial research and similar activities. Industrial research may in the course of time fittingly be undertaken by the State but we will need at least for many years to supplement State research by industrial research promoted by private sources. This is a field which has in a quite overwhelming degree belonged especially to the Managing Agency

houses; they might, perhaps, have done more but what they have done has shown a fine appreciation of the country's needs as well as of their own.

The advantages of pooling personnel are less easily recognized but are none the less real. If, for example, we set out to establish a large textile machinery industry it would be a matter of the first importance to have the guidance of textile experts and the means of testing products in a mill which would give the fullest reports at each stage of production. In a Managing Agency system where the agents control textile mills this could be accomplished at once. Where there are no such facilities, close consultation between the engineers and mill authorities would not merely be expensive and difficult; it may well prove impossible. The most serious consequences to the textile machinery industry may ensue perpetuating mistakes which may otherwise have been corrected from the beginning. The Managing Agency system in so far as it provides a working association of skilled personnel is rendering a vital contribution to industrial development to the country as a whole.

Like all human institutions the Managing Agency system has had its abuses, the most serious of which in the past has arisen largely from a defective method of remuneration. When commission was based on the total volume of production or on bulk purchases of raw materials, the interests of Managing Agents lay in directions which did not necessarily make either for efficient working or for the interests of shareholders. There are other criticisms less justified; that the Managing Agents ignored the shareholders and overruled the Directors; that they were always a law unto themselves tending in

an unchecked hereditary system to breed inefficiency and corruption. But these abuses, by no means universal, have in any case been brought under control under the Indian Companies Act (1936) which limits the term of office of a Managing Agent to twenty years at a time, restricts transfer of the office and assignment of remuneration by a managing agent, provides for removal for fraud or breach of trust, and, above all, prescribes a uniform basis of percentage on net annual profits for remuneration. It would be possible to complain that the powers of Managing Agents are still wide and remuneration liberal; but in a planned economy powers and liberty of action will be further curtailed and net remuneration which is taxable is likely to be far less attractive than it appears at first sight. There is little ground for supposing that Managing Agents singly or collectively constitute any danger now to the public weal. It will be one of the aims of statesmanship to harness their resources to the tasks of the new age; and it will be the privilege no less than the obligation of the Managing Agents to use their vast resources with a single mind in the service of the State. By their fruit in the next few years we shall know them; their industrial activities will not be hidden and we can be well content, like Michelangelo, to leave the light on their work to the public square.

The suggestion that the Managing Agency system should thus be incorporated in our plans of progress is a counsel of expediency and not necessarily a final judgement on the future of the system. The paramount aim of planning in the period which we are now considering is the abolition of primary poverty. Industrialization has been advanced as the main solvent of our troubles and

industrialization at the level and speed necessary implies vigorous initiative. The fact that this initiative is mainly to be found in the Managing Agency system at the present time and that it also possesses other important advantages necessitates not merely the retention but the positive encouragement of the system, whatever its past and with whatever misgiving we may view its future. Industrial organization must subserve our primary purpose and changes in industrial organization which conflict with the paramount aim of the abolition of poverty must wait for better times. For as with the political doctrine of paramountcy, the essential feature of paramountcy is that it is paramount.

This is not a plea for a general policy of wait and see. But it is a plea for keeping our eyes firmly on our goal and steadfastly refusing to be sidetracked merely because of public clamour. First things must come first. The reform of Works management offers us a far more promising attack on bad management than does the abolition of the Managing Agency system for it is here that our main weaknesses reside. What in advanced industrial countries is described as 'Scientific Management' is still virtually a closed book to most of our industries. This is not because there is anything profound or obtuse either in their understanding or in their working; the use of time and motion study and bonus schemes to increase production contain no mystery but it is doubtful if one factory in ten makes any considerable use of principles of industrial practice not less than fifty years old. An intense conservatism in Works management remains a glaring failure of almost all our industries; modern productive technique is but sparingly

employed and always with caution and hesitancy. In one respect this caution is justified for our labour does not always respond to initiative in the manner of industrial labour elsewhere; at a certain point no inducement of higher wages seems to tell; the worker's effort stops at a point which in his mind's eye registers his basic wants. But it is precisely at this point that scientific management commences and it is its special task in India to find inducements which overtake the overwhelming desire of our people to rest before the full task is accomplished. It is necessary to secure also uniformly good work instead of spells of good and bad which involve a much higher percentage of scrap than in similar factories abroad. We must develop too that pride of craftsmanship which was at one time so great an asset in our fine handicrafts that have now passed away. All this is mainly a psychological and a physiological matter, seeking the conditions of both mind and body appropriate to sustained and exacting work. But it is not all a matter of scientific study; much can be done by wise and informed understanding; by providing incentive without strain by the right appreciation; by discipline order; by a combination of all that is implied in team work. It is out of inspired management of this kind, of which we still have far too little, that we may expect great progress in each industry and in all together. It is one of the main duties of private and of public industry to seek to create it in every field.

The advent of planning by relieving our Works Managers of much routine work outside the shops should give them greater opportunities for concentrating on efficient production within. The licensing of new

industry and the regulation of demand will both involve a reduction in competition which removes at once the most salutary check on inefficiency. We will need to find in the continued application of the methods of scientific management new and vigorous standards of industrial efficiency providing our Works, now deprived of the stimulus of outside competition, with a sensitive conscience of their own. If they should fail thus to right themselves they are likely far more rapidly than at present to be overtaken by creeping paralysis; for they are not likely to receive through the mechanism of losses that helpful warning that now comes to weak concerns before they are finally overtaken by the decrees of fate.

From the realm of external management each concern will find little by way of precept or example. For the functions of the State and Employers' Associations in the industry will be very different from those of the individual concern. Assuming that the industry is one subject to close State control, it will be the function of the State to fix the number of units, their location and size as well as the figure for demand. It is the planning authority which will have to decide what is the optimum unit for manufacture and the optimum unit for management and sales; it will be again the duty of the planning authority to reconcile these optima not only with one another but with the far more difficult problem of location to satisfy Provincial jealousies and various non-economic considerations which must weigh in the political arena. The State is hardly likely, therefore, to find occasion to extend a helping hand to concerns in distress; it will have too much to

do to save itself from the errors of its own ways. Employers' Associations may be of more assistance provided that they have an interest in keeping concerns alive. Assuming, however, that the target of production is not high and that the association is held responsible for restriction of output of individual concerns, it is far more likely to welcome the disappearance of a losing concern than to labour hard for its rescue. This is no cause for regret for if an association always sought to rescue a concern from loss, it would be setting a premium on inefficiency which in time would affect the industry as a whole. And the survival of all concerns when demand is limited would involve a loss to the country as a whole for it would prevent well-managed concerns from developing when weaker concerns left the field. The survival of the fittest is not a doctrine which can be trusted in the short period to do the country good; sudden and unforeseen misfortune may overtake the good concern as well as the bad and it is important that in these cases relief and encouragement should be amply provided; in the long run, however, in a planned as well as in a competitive economy, it is essential that the career must be to the talents and that habitual industrial debility should be allowed freely to sink into oblivion. It is no part either of the State or of the industry to dispense charity in these cases and both the State and the central association. of an industry would be better advised to hasten the downfall of a badly managed concern than to strive in mercy'vainly to keep it alive.

Both agencies have nevertheless important duties to the industry as a whole. Ultimately both the State and 8

each industry are responsible for the attainment of the targets fixed by the planning authority. involves keeping in close touch with production in every concern; where one unit fails its deficit in production must be made good by a surplus in another. This planning of output of each industry is most conveniently handled by the central association for each industry and can be made effective very much in the manner in which the Indian Jute Mills Association at present operates. Practically every important industry has its association which can be made the medium for this control of output; some associations, such as the Indian Jute Mills Association and the Indian Sugar Mills Association, have already undertaken wide functions in allocating raw materials as well as in regulating output. There should be no difficulty in extending the scope of these associations which might act, like the industrial trusts of the U.S.S.R., as liaison groups between the individual concern and the planning authority. Provided that the powers of these associations are restricted in scope and do not usurp the functions of the State there is everything to be said for extending their activities. This should be regarded as a healthy development on both sides; it will provide the State with machinery of control far more effective than any machinery which it possesses itself and private enterprise is likely to respond far more enthusiastically to control exercised by its own members than to that of other agencies with whom its relations have not always been friendly. This delegation of powers may, perhaps, be viewed with some suspicion by labour and it will be the task of the associations to prove by their deeds that they nowhere use these

delegated powers except for the express purpose for which they are assigned. In the last resort there is always the power of the State which is, to the extent that the law allows, both paramount and absolute; this fact will produce a salutary fear of intervention. But the success of these controls will be measured more by the absence of interference than by the readiness with which the guillotine is applied.

It will also be necessary to create within industry itself an attitude of self-criticism and the machinery by which industry may periodically take stock of its progress and where necessary institute prompt and effective reform. For this purpose the most convenient agency is a standing committee similar in purpose and functions to the Working Parties recently constituted in Great Britain. These Working Parties are usually composed in equal numbers of employers and workers with a neutral chairman and some independent members. They are constituted not with the object of settling internal disputes but to advocate general improvements in the organization of the industry so that it may advance on all fronts together. The danger exists that wide differences will prevail within each Working Party and a report which is unanimous will be the rare exception and not the rule. The Report of the Cotton Working Party in Great Britain which has just been issued is a case in point; it has produced some embarrassment by dividing into exactly equal parts, the Chairman, Sir George Schuster, four trade unionists and one employer being on one side, and three other employers and three independent members on the other. But the Report is not less valuable on this account and

contains one of the most searching examinations of conscience which any industry has hitherto undertaken. This is a gain in itself, although, unless action is taken promptly, it may appear that much useful labour will have been expended in vain. For whether or no reform proceeds immediately it is always an undoubted advantage to shake off complacency and to face shortcomings; a sense of sin when it produces a sincere act of contrition as a step in the right direction. In the fullness of time it must lead to better things, at least to the extent that the fear of the Lord is the beginning of wisdom.

In a planned economy we shall have to guard very carefully against the growth of inefficiency sheltering under the protecting hand of the State. This danger is not, indeed, completely absent in a competitive economy. The Platt Report on the textile machinery industry in Great Britain has shown how easy it is for an old and well-established industry to lose ground even when it is equipped with vast research institutions charged with the responsibility of keeping contact with new developments in every land. In our initial period of planning we shall be far more concerned about ourselves and with the absence of large research and intelligence sections we may well, unless we are very careful, be left far behind in the race of industrial progress. We may doubt whether the State will ever be an effective watchdog of industrial efficiency although it has a direct interest because of its effects in tariff and taxation policy in maintaining it. This makes it the more necessary that there should be provided within each concern and within each industry the agency for a continuous examination of costs and what is more important an agency

armed with powers large enough to correct proved defects. This task, with many others, has in the United States of America been performed in recent years largely by an officer described as a Controller; it is certain that the Controller as an institution in industrial management in the United States has come to stay. It has proved its worth a hundredfold. It would appear that we too would profit greatly by the creation of similar functions in our larger concerns and in our Managing Agency houses. Controllers will probably be looked on in the beginning with some suspicion as a species of extraneous growth; and since we have no trained Controllers we will need at first to import them from America, thus further emphasizing their foreign source. But we will need at this great testing time not to be narrow and insular. Industrial efficiency means, if it means anything, that we are prepared to learn good management even if it comes to us from the ends of the earth.

CHAPTER VII

INDUSTRY AND PUBLIC FINANCE

#ORE than two thousand years ago, Kautilya, the accredited author of the famous Arthasastra, described finance as the beginning of all undertakings. In a planned economy, public finance is not merely the beginning of all undertakings; it occupies the centre of the industrial structure and is its mind and soul. It is concerned with all the old things, with the balancing of revenue and expenditure of the State, and with the raising of the necessary taxation in as convenient and equitable a manner as possible. But it is dominated by an entirely new consideration in that the purpose of public finance is to assist in the development of the Plan, the end of which is the raising, by definite and measurable stages, of the national income of the country. This gives to public finance in a planned economy an entirely new setting and it involves a new approach even to the old ends. Budgets in the past sometimes contained a policy even when they had no plan; but as the State never directed the industrial structure of the country, this policy, except for its fruit in negation, was never a moving spirit within Indian industry. And the national income entered little, if at all, into Budget policy, making it an arid survey of figures almost devoid of human meaning. The Budgets of the future must be human documents telling each year to our people the full story of the progress that has been made in advancing their standard

of life both singly and collectively. That is the end of public finance in the future and from it must spring in every sphere both policy and plan.

From the end of increasing the national income per head is derived the means. Income is expressed in an annual target of production in every field. The volume of capital required for this production can be deduced roughly by means of the ratio which is a figure representing the relation between capital expenditure and the income it is expected to generate. The Bombay Planners assumed an over-all ratio of 2.4; we shall need to substitute a more accurate figure for the capital-income relation in each industry. When the volume of capital is thus fixed, the extent to which it can be raised by spontaneous savings must be estimated; given the approximate distribution of incomes this is not likely to be a difficult task. If the volume of savings falls short of capital required, the State may need either to restrict consumption, thereby raising the percentage of income saved or, what in the end produces the same result, have recourse to the familiar and less resented device of employing created money. The volume of private consumption outlay and of private saving are thus indirectly in the hands of the State. Its taxation policy also controls the net private home investment outlay so that it acquires indirect control of the three determinants of production in private hands. The volume of total outlay depends also on three factors over which the State has direct control. These are public outlay for goods and services from revenue account or what is generally described as recurring expenditure, outlay on goods and services financed from Government loans mainly as capital expenditure, and finally the balance of payments abroad which depends in large part on the State's exchange, customs and tariff policy. It is the end of budgeting to adjust the volume of total outlay under all these heads so that their algebraic sum reaches the output capacity required by the figure for income incorporated in the Plan. With complete control of the banking system and control over the use of resources the State has ample powers to make adjustments in any of the items noted above. Its wisdom will be measured not so much by its attaining output capacity in the Plan which is easy enough but in obtaining it in a manner which secures the minimum dislocation in the lives and habits of the people.

The policy to be pursued under each head will not be uniform and will depend largely on the direction and tempo proposed in different years of the Plan. So far as the first stage of the Plan is concerned, the capital expenditure required for industry is estimated by the authors of the Bombay Plan at pre-war prices at only Rs. 790 crores of which Rs. 480 crores are for basic industry and Rs. 310 crores for consumption goods. The latter figure, as has already been remarked, is capable of considerable enhancement and we may, perhaps, estimate industrial capital requirements for the next five years at Rs. 1500 crores at pre-war prices. There appears to be little doubt that the whole of this sum will be forthcoming without any added stimulus from the State. The capital markets both in Calcutta and Bombay are at the present time (July 1946) in the grip of speculative fever ostensibly the result of the Government's cheap money policy bu largely the outcome of war expenditure and of black markets the money from which now battles violently

on the Stock Exchanges for the limited scrip available. It is unlikely that these feverish conditions will abate immediately and enterprising industrialists have already exploited much of the speculative fever, which is in any case no unmixed blessing. Much of the invesment which is now taking place is not in conformity with any plan; it is being thrown wildly into those industries which have got in first. While the Government is still blissfully in deliberation, the favourable hour may pass; and when the process of incubation is complete and its plans are at last brought forth, heroic measures may be necessary to raise sums which today can be raised overnight. It would be common wisdom for the Government, taking time by the forelock, to keep an unlimited 21 per cent loan continuously on tap. Even if the money is not immediately required, its withdrawal in the existing hectic capital market would have a salutary sobering effect. Some of this money could be used immediately for national relief forming the nucleus of the National Relief Fund on the development of which we should set great store. Famine and flood are too near us for their ravages to be forgotten and there can be no finer investment for our funds while they await the arrival of the Plan than that they should in part help to minister to our fellow citizens in need. And we shall soon need to spend far larger sums on the vigorous prosecution of Public Works which form so vital a part of our plans for reconstruction.

Finance in the second stage of the Plan brings us at once into the realm of prophecy. Assuming, however, that the first stage of the Plan has been successfully accomplished, there should be no difficulty in raising the industrial capital required for the second stage which is

estimated at Rs. 1530 crores at pre-war prices. But the second stage of the Plan also calls for considerably enhanced non-industrial expenditure particularly on Communications, Housing, Education and Agriculture, only a fraction of which can be financed from revenue. Most of this sum estimated at nearly Rs. 1500 crores over five years will need to be raised by loans or financed by expansion of the currency or divided between both in suitable proportions. Only circumstances then prevailing can indicate to what extent recourse should be had to each. But in view of the far greater demands which the third stage will throw on an expanding currency, there is ground for holding back the printing of new money as far as possible. This will require much self-control on the part of the Central Government and self-control with all the numerous demands of its nation-building activities rising, will be a difficult course for any popular Government anxious to vindicate by quick results the confidence of its people. But if inflation should set in before the commencement of the third stage of the Plan, with all industrial costs rising precipitously, it will spell at once the ruin of all our hopes.

There can be no doubt whatever that although the problems of finance of the third stage are by no means insuperable they make the most searching demands both on our wisdom and our powers of organization. It is not likely, although total national income will have greatly improved, that the outlook in regard to spontaneous savings will be very much more promising than at present; even a fifty per cent increase in low income groups will not substantially increase savings. If we assume that roughly the same amount will be forthcoming

as spontaneous savings in the third stage of the Plan as in the first two together we would probably err on the side of optimism; it is in any case clear that the feverish development of the third stage will need to be financed largely by created money perhaps of the order of three thousand crores in five years. The figures of Government expenditure in each year may so far as plain figures are concerned not be appreciably in excess of figures during the concluding stages of the war and part of this expenditure instead of going into the army and the accumulation of sterile sterling balances will go into industry and production thereby further allaying inflation. But there will be still ground enough to fear unhealthy inflation and the danger will have to be met by a vigorous and enlightened high taxation policy. The particular distribution of taxátion may be questioned but a high taxation policy is abundantly justified by two special considerations. To the extent that planning reduces risk, the argument that high taxation acts as a serious deterrent to risk-bearing ceases to apply; and when finance becomes a primary function of the Government, it acquires an indéfeasible claim to recoup itself out of the profits which accrue from investment which it finances. It will also have an equally legitimate claim arising more from its duties than its services; its obligations in the third stage will be very great for the nation-building activities particularly Housing and Education will rise in this period to their peak.

The end of the Plan by no means implies an end to our difficulties. Even if it should close in glory with every target achieved it will have set up within the economic system forces which will have studiously to be kept in

mind. Even if we assumed that at the end of the Plan the rate of saving is twelve per cent of income and is capable of maintaining a buoyancy of its own it would not provide us with a rate of investment equal or nearly equal to that of the third stage of the Plan. Left to itself, therefore, the third stage of the Plan will leave us with no automatic mechanism to make a great spontaneous leap forward; without created money again, and a plan even more ambitious, we will be in serious danger of being thrown if not into a violent depression at least into a thoughtful period of industrial sobriety. This is cause for concern. For our rapidly growing population will not let us tarry on the way; when we do not go forward, we must inevitably fall back.

The organization of the financial side of the Plan is partly a problem of capital and partly a problem of revenue; considered over the whole period the volume of expenditure to be financed from revenue will be greater than the volume of pure capital but the problems of raising the necessary capital are less familiar and require, therefore, closer consideration. At the present time State control of the capital market is exercised under the Capital Issues Control Order over whose administration there presides as High Priest an officer of experience and distinction described as the Examiner of Capital Issues. The precise functions of this control have nowhere been accurately described but its purpose has at various times been indicated as the curbing of inflation, the protection of the community in a period of speculation from unhealthy and undesirable floatations, and finally the planning of the country's limited capital resources. None of these claims can on the facts be sustained. It i

obvious that refusal of permission to issue capital in the case of a company which has as its object the promotion of production is not merely not to curb inflation; it is actively to promote it. Money thus refused entry into a new capital venture unless it is hoarded, a possibility which we may now discount will find its way eventually, and under present conditions sooner rather than later, into other channels. It will either directly enter the market for consumption goods by fair or foul means or indirectly arrive at the same destination via the banks and other investment agencies. In either case its effect is inflationary. It is the grant of permission and not its refusal which has a deflationary effect; this is partly because unused funds are invested in Government securities, and do not then drive up prices. If funds are spent within the country they do in part push up prices but if they are spent on production of new goods, the inflationary effect is temporary and will be more than offset by the flow of finished goods which industry produces. If the issue is spent at least in part on the purchase of machinery abroad, which in existing conditions in India is inevitable, then there is a further deflationary effect. The peculiar doctrine that the control of capital issues arrests inflation is, therefore, in the main the exact reverse of the truth; and the danger of this falsehood is all the greater in a period of inflation. The Capital Issues Control Order then enters the lists on behalf of the dragon of inflation which it proudly sets out all too righteously to slay.

There is more to be said for the view that the Capital Issues Control Order discourages speculative ventures but the danger here lies in too narrow an interpretation of what constitutes speculation. Many undertakings

now securely established must have looked extremely speculative when originally floated and risk-bearing in the floatation of such undertakings is a definite function of industry as it is a vital condition of industrial progress. The refusal to allow a capital issue to finance speculative trading with the object of snatching quick profits from the rest of the community is one thing; the refusal to allow an industrial venture to raise capital is quite another. In the former case the country loses little; in the latter case it may lose an industry with a recurring loss in output, employment and national income. The Examiner of Capital Issues not being gifted with omniscience and all the gifts of prophecy will not be able to judge every case correctly and the danger of curtailing initiative which is already weak is greater than the evil which would arise from a truly speculative venture crossing the control. For in any case, speculation in new floatations is only an insignificant fraction of total speculation. If speculation does in fact constitute a danger to the nation it should be curbed where it breeds most; on the Stock Exchanges of Calcutta and Bombay and on the grain and bullion markets. A brave and ineffective attempt to curb speculation in a small and narrow area while it romps cheerfully over the whole country can do us little good and may, since it will withdraw capital from industry into more speculative channels do us considerable harm. Our motives may be of the best but we may succeed only in making confusion worse confounded.

The prevailing confusion in the control of capital issues is the direct outcome of the absence of any plan, the issues permitted being as arbitrary as the applications

received. If the purpose of the Capital Issues Control Order were to direct the country's capital into channels which accord with a scheme of priority depending on an accepted plan, its purpose would be laudable and it would be entitled to the fullest support even if it hindered new undertakings. For it is of the essence of planning that it rejects what does not accord with the Plan. But the Capital Issues Control Order has been administered without a plan and indeed violently in the face of planning for it has already permitted the drawing off of capital on many ventures which might well have been deferred while little or nothing has been done to foster our basic industries on which our plans for rapid industrialization must rest. It is, perhaps, therefore, not a misfortune that the exercise of control is always slow and dilatory; had it been prompt and efficient, the evil may well have been worse. For without a plan we are without rudder and compass on an uncharted sea; and it is better that we should drift helplessly than that we should be wrecked upon the shoals or that we should split upon the rocks.

But helpless drift will get us nowhere. It is not even enough only to plan wisely; it is almost as important that execution should be vested in individuals who have a full appreciation of the industrial problems involved. At the present time final execution does not even reside in the Examiner of Capital Issues. In the tradition of the Imperial Secretariat there has been established both a Departmental Committee and involved routine. No case in excess of one lakh of Rupees is disposed of directly by the Examiner which in effect means all industrial applications must be sanctioned by a Departmental Committee on which there are representatives of the Departments of Industries

and Supplies, Commerce, Finance, Planning and Development. Papers are not discussed in Committee but travel at a pace which must be seen to be believed from Department to Department and may for long periods be sent anywhere if any clerk in any of these Departments decides that further information would assist the disposal of the case. But what is important is that even after all this delay, there is no guarantee that a correct decision will be taken. These cases are generally handled by officers of proved academic distinction but with little knowledge of the problems of industry in general and still less of the technical merits of the particular issue on which they are invited to deliver a final judgement. If they had a plan, things would be easier; but they would be easier only because reference to anybody would be unnecessary; the Plan would itself fix the volume of capital required in each industry. And the absence of a plan is not made good by indifferent noting by ignorant persons; it only means that the chances of error are increased manifold.

It is clear that in an age of planning we shall have to rebuild entirely the structure of the capital market. It may be necessary for the State to undertake direct responsibility for all the capital required. The proposal to institute an Industrial Corporation was mooted by Sir Archibald Rowlands but has apparently made little progress since his departure, it being in the best tradition of the country to drop hastily any financial commitment in which the reigning member is not directly interested. But whether or no the State takes direct responsibility it must create both the atmosphere and the agencies for sound regulation of the capital market which is now in

chaos. The first condition of success is a plan but the second condition is the creation of a powerful executive body which will be able to co-ordinate the activities of all investment agencies in the country. In the U.S.S.R. the control of the capital market, as of almost every aspect of finance, is maintained by the Gosbank with the Prombank discharging its special functions in relation to industry. It is, of course, far easier to exercise this control in Russia where all capital development is financed by the State than in capitalist countries but there is no reason why functions similar to that of the Prombank should not be undertaken at least in respect of institutions directly financed by the Government. The regulation both of capital and credit in other cases can be effected by the Reserve Bank of India which will need to be entrusted with new powers to obtain information from industry in regard to allocations of working capital from time to time. We may need to take a leaf out of banking practice in other countries particularly Germany and Sweden. A strict husbanding of all our capital resources will be necessary for many years and, however irksome these regulations may appear, it would be wise for industry to accept them with good grace. When the principle of planning has been accepted there can be no justification for resisting its inevitable trappings.

The problems of taxation in a planned economy are not different in principle from the problems which face us today but there are two differences of degree rather than of kind which merit special consideration. The first of these arises from the diminution of risk-bearing as it now exists in private industry. To the extent that the State 9

restricts competition by a system of industrial licensing, to the extent that it creates demand for the products of industry, to the extent that it provides capital or assistance in raising capital, and to the extent that it saves, by price-fixing or otherwise, individual enterprises from extinction, it confers a bounty on private enterprise for which, according to the strictest canons of public finance, private enterprise must be prepared fully to pay. A high rate of direct taxation on industrial profits is ordinarily widely and justly proclaimed as a deterrent to enterprise. It is easy to see that even if a uniformly high rate were maintained on all sources of income it would have a deleterious effect. For though there would be no benefit accruing from the transfer of resources from one source to another, there would be a damping effect on all new undertakings as a result of the reduced profits which arise from undertakings attended by risk and there would then be a strong inducement for industry to play always for safety. In a planned economy with the marked diminution in risk-bearing, there is a much stronger justification for high direct industrial taxation, adequate provision being made of course for addition to reserves for true capital expansion, for depreciation allowances to cover both wear and tear and obsolescence, and for extensive rebates for industrial research. We have, as experience elsewhere must indicate, by no means reached the limits of direct taxation of industry; but the raising of the burden of taxation depends on the State undertaking its full functions in a planned economy. If it does not discharge these functions then there is ground for a reduction of taxation of industrial profits and not for any increase; if industry is to stand the strain of higher

not be there, industry will fall down and the State will tumble after.

There is also in a planned economy far greater justification for high direct taxation of individual incomes than in a system in which large individual incomes provide most of the new capital which the country urgently needs. In India at the present time taxation of large incomes is high but it could, if savings can be supplied by other means, well be higher. Many incomes, such as agricultural incomes escape except in Bengal, income tax altogether. It is almost certain, although complete figures are not available, that the inequality in the distribution of personal incomes has not in recent years diminished; it is more than likely that in the war years it has even increased so that existing taxation, progressive though it might appear, has failed signally in one of the prime ends of taxation policy. Differences in income of the kind that exist today are serious dangers to the body politic, bringing in their train both instability and revolution. And there can be no economic justification for violent maldistribution of wealth at a time when the State itself is to undertake the responsibility for finance either directly or by the control of banking and investment agencies. So long as the State did nothing to assist capital formation it was reasonable to allow capital to form itself out on the surplus which accrued, in the infinite wisdom of Providence, to the privileged few in the community. it was an evil only to be borne because a greater evil was apprehended from its abolition. In a planned economy, with the State undertaking almost the full responsibility for capital development, there is fortunately little need

for leaving money, in Gladstone's picturesque phrase, 'to fructify in the pockets of its people.'

There is urgent need in the new circumstances for a thorough examination of our taxation policy with a view to securing a system of distribution more in accord with modern ideas of social justice. Many reforms in incometax law such as family allowances which have worked for many years in other countries are still to come; many others such as allowances for earned as against unearned income have just been introduced with considerable caution and hesitation. And the attack on the concentration of capital and wealth has hardly made any progress at all, a weak and attenuated Estates Duty Bill being of little account except as a gesture for the future. Our public finance in the nation-building services is still mean and niggardly forgetful that by generous grants under Education, Housing and Public Health something may at least be done to lessen the wrong that is done daily to those that are most in need who still contribute in indirect taxation out of all proportion to their means to the nation's purse. There is immediate need here for a change in outlook; for the State, more than for individuals, it is more blessed here to give than to receive.

Our present system of indirect taxation, Central and Provincial, has grown up haphazard mainly in response to changing revenue needs and lacks both science and justice. So far as import duties are concerned, the most serious flaw from the point of view of the mass of our people is an unduly heavy duty on kerosene yielding a relatively meagre four crores a year, certainly a poor reward for the daily hardship caused. But from the point of view of industry it is more material to point out

that except for the duties on tobacco and spirits and liquors almost all existing duties adversely affect production being on important raw materials or equipment, machinery, oils, dyes, raw cotton, railway materials and motor spirit. These duties levied ad valorem are necessarily regressive but for our present purpose it is perhaps more significant to emphasize their effect on productive efficiency. They constitute a growing item in our industrial costs and an indirect tax on industry itself which bears more heavily on the new and struggling concern than on the old and well-established. The fact that these duties all yield considerable revenue and that most of them taken individually yield more than all the protective duties together is not in itself a justification for their continuance. The total estimated revenue of 66.57 crores under this head for the year 1946-47 may well be our prosperous industries alone raised from the total abolition of these duties except those on motor spirit and spirits and liquors would give a welcome spur to new industry. The abolition of the protective duties now yielding less than two crores in all would also cause little hurt though it might raise an unreasoning fear that Indian industry still in precarious will be swept away in a rush of foreign imports.

The mistaken impression that protective duties provide the only sheet anchor for our weak industries is at the root of the popular clamour for all-round protection. At present there is hardly a single industry in the country which is in fact protected; the duty on steel which is usually cited as an illustration of the benefits of protection has long ceased to be protective, existing internal

costs of production being nearly Rs. 100 per ton lower than costs overseas. And all the major protective duties such as those on sugar, matches and textiles, have rapidly disappeared and in the case of sugar and matches there are even excises which if anything provide evidence that these industries far from needing protection are sufficiently well-established to make substantial contributions to the Public Exchequer. The cry for assistance is not indeed entirely unwarranted because our infant industries will still need State assistance if not to meet foreign competition at least to carry them over the initial period of heavy recurring losses. This assistance may, however, other forms such as subsidies or assistance through price-fixing; it is not necessary that our industries should always hark back to protection as the universal panacea for all our ills.

Even if our industries needed protection from foreign imports the most effective manner of according this protection in a planned economy is not by protective duties but by a system of quotas. A protective duty can only effectively protect to the extent that it excludes and, as our pre-war experience with Japan should remind us, there are few duties which are in fact insurmountable. The argument that the revenue from a protective duty is obtained by mulcting the foreigner is also a snare and a delusion; for in most cases protective duties breed inefficiency within and the increased prices all round are paid in the end largely by the home consumer. There are also long run factors such as the general effects of a reduction of international trade which we cannot lightly ignore. It is by no means clear that in all instances the long run effects of protective duties are in the interests

of the country as a whole though there may be individual instances in which they would pay and pay both well and quickly. And it is foolish to seek a dubious remedy when a straightforward cure is always in our hands. Knowing our target figures for each product we can prescribe the volume of home production and an import quota for the balance. There is no reason why there should be the old policy of hit and miss. With a protective duty we are still the creatures of foreign manufacturers; with a quota we are masters of our own destiny and our industries, knowing both the target of output and the import quota, cannot complain that they are always producing in the dark.

We shall need in the years to come to guard steadfastly against the growth of a narrow economic nationalism seeking at every stage by fair means or foul to check the growth of international trade. It is for the planning authority to decide to what extent foreign imports are necessary in the interests of the whole country; in making this decision it will be confronted with the powerful claims of producers, consumers being largely unrepresented except in the case of industrial raw materials. It will have reports of Tariff Boards providing detailed and expert advice but the fixing of quotas for imports or protective duties belongs to the substance of the Plan and cannot be delegated to Fiscal Commissions or Tariff Boards however able and efficient. The old tests by which an industry proved its case for protection will also not apply; it should not be necessary for an industry to prove its right to existence on the basis of natural advantages or that it should exist eventually without assistance. Its right to exist or not to exist arises out of the Plan. If the planning authority on whatever grounds decides to create or expand an industry it must see its decision through. So far as an individual industry is concerned it is enough that the Plan decrees it; its fiat in word as in deed becomes the inscrutable law of the land.

CHAPTER VIII

INDUSTRY AND THE PEOPLE

THE primary aim of rapid industrialization is the creation of new wealth and new productive capacity so as to raise the income of the country. So far as the calculation of income is concerned the content of income or changes in content are of little importance provided total volume is undiminished. But the content of industrial output is nearly as important for the welfare of the people as its volume. The production of ammunition may contribute as much to national wealth as the production of cloth; but there is the widest difference in their contribution to welfare. The old dilemma of guns or butter has fortunately at least temporarily, been set at rest. We shall, it is true, need guns and, perhaps, many of them to defend ourselves against aggression from without and even perhaps, from civil strife within. Industry must provide them when required. But its spirit must be turned against destruction and its main purpose is to construct and to create amid the arts of peace all the healing virtues necessary for a battle-scarred and war-weary world. In our time industry will be judged not only by the test of wealth and output; it will be judged by the extent to which this wealth and output minister to the true needs of the people. These true needs are for the great mass of our people still elementary-food, clothing. and shelter, of all of which in every province in the country there is a desperate shortage. Industry must aid

in the satisfaction of these wants. It would avail us little if we surpassed every nation in wealth and capital but found ourselves unable to abolish the scourge of widespread distress within. For the highest common measure of welfare of a nation differs little from the lowest common factor of the welfare of the least.

It is the substance of a national minimum and not a mere money figure that is of vital importance. Mere average income may mislead and mere paper income without the reality will add insult to injury. Each citizen must in fact enjoy the food, clothing and shelter laid down in our minimum standards. It is easy enough to perform an arithmetical calculation of our requirements by multiplying, as do the authors of the Bombay Plan, the national minimum under each head by the number in the population; and it may, perhaps, be argued that since children will not consume the full minimum proposed, we would err on the side of generosity. But in fact the mere production of the materials required provides no guarantee that these materials will be divided fairly between all classes in the country. If the principle of complete equality could be enforced by a perfect system of distribution there would be something to be said for estimating production requirements in this manner. But the principle of equality is in fact discarded except in its negative application that gross inequality is to be discouraged. Unless, therefore, there is an elaborate system of rationing of food, clothing and shelter, a real national minimum will be impossible if production is just sufficient to support the minimum. To argue that we have secured a national minimum merely by arranging for production which in total volume is capable

under ideal conditions of supporting a minimum is thus woefully to mistake the means for the end.

Our production targets in essential foods, in clothing and building materials cannot, therefore, be cut to the bone in the manner which apparently underlies the calculations in the Bombay Plan. A factor of safety of twenty-five per cent may appear adequate but in view of the gross incompetence of existing distributing agencies it would perhaps be to err on the side of niggardliness. But if we make rough calculations on this basis we will recognize what great demands will be made on our productive capacity under the elementary heads of food, clothing and shelter if we are to establish a national minimum at all. Hitherto we have been content to ignore this aspect completely. So far as the work of the Industrial Panels is concerned, target figures for the next five years have completely disregarded the place that planning must play in the attainment of a national minimum. Targets have in fact been proposed in the most ignorant and light-hearted manner, a favourite device being the estimation of demand on the basis of the trend of pre-war consumption increased by dampedup demand unfulfilled in the war years. It is not generally realized by the authors of these curious documents that if targets are to be fixed in this manner we are more planned against than planning. For the calculation of future demand on the basis of pre-war consumption is to shame ourselves by relapsing again into our unworthy and dishevelled past. Planning is demanded as a break with our murky past not as a means of its continuance; its virtue lies in the fact that it creates its own demand, not that it accepts the tyranny of uncontrolled demand

and submits meekly to its oppression. If our target figures provide nothing but the backwash from a world which we have left behind, we may as well fling them away at once. Planning arises from the minimum needs of our people for food, clothing and shelter. Industry must raise its production standards to provide them or perish in the attempt. Feeble targets based on prewar demand will not only show us weak and afraid; they will abandon for ever the hopes of raising our people from the slough of despond in which they are now so pitifully involved.

The provision of the necessary food for our people is primarily a task for our agriculture. But industry is the handmaid of agriculture as agriculture is the handmaid of industry. The two directions in which industry must specially assist agriculture are firstly, in providing equipment, not only simple equipment like improved ploughs but also, where these are required, tractors and harvesters; and secondly, in providing chemical fertilizers without which the vast increase in agricultural production required cannot be attained. Experts appear to support the view that granted the necessary facilities it would be possible to increase our annual production of food grains, at present about 60 million tons, by about 15 million tons in seven years and, perhaps, by 40 million tons in fifteen. For a minimum balanced diet, we will also require a fifty per cent increase in fruit consumption, a hundred per cent increase in vegetables, a 250 per cent increase in fats and oils, a 300 per cent increase in milk and a similar increase in the consumption of fish and eggs. The attainment of these targets will call for a vigorous and sustained campaign backed by profound

agricultural knowledge as well as by all the country's resources; we require greatly extended irrigation facilities, a relentless attack on plant diseases and pests, the setting down of improved varieties and all that is implied in scientific agriculture. It will be the privilege no less than the obligation of industry to make a vital contribution in its own field to the lasting progress of Indian agriculture in the next few years.

The cornerstone of this contribution is to be found in the production of chemical fertilizers. Our figures for the consumption of sulphate of ammonia, the most important chemical fertilizer used, were in all about 80,000 tons in 1943, indigenous production being only about 15,000 tons. About 25,000 tons of this were used in tea estates, nearly 25,000 tons in sugar-cane plantations and about 11,000 tons for potatoes and vegetables. Only a meagre 15,500 tons were allocated to paddy and much less to wheat. When we remember that one maund (80 lbs.) of sulphate of ammonia used in addition to light manuring with farmyard manure or compost produces increases of 41 maunds of paddy, 3 maunds of wheat, or 15 maunds of potatoes over untreated plots, we realize only dimly what we have lost in agricultural produce by our terrible failure to recruit science in the service of agriculture. Even the Government of India's present proposals to manufacture 350,000 tons of sulphate of ammonia per annum must appear paltry and inadequate. Before the war Japan on her very small arable area of 16 million acres was using four million tons of chemical fertilizers; Russia in the ten years before 1940 had increased her consumption from almost nothing to four million tons. When we consider that our plans are being made for a population more than

twice that of Russia and for an arable area more than twenty times that of Japan we recognize something of the absurd pettiness and levity of the figures proposed. The Heavy Chemical Panel in the most light-hearted manner has done much worse suggesting a five-year target of 38,000 tons for ammonium sulphate. It is argued that the Government plans for a meagre 350,000 tons a year if rushed, may involve, since equipment is not immediately available, in our obtaining old machinery, thus raising our production costs, the assumption being that we should produce on a competitive basis or not produce at all. It is apparently a matter of no consequence that our agriculture is quite prepared to accept ammonium sulphate at almost any price; or that whether the price paid is high or low, the increased agricultural production is necessary to avert starvation and cannot, therefore, be deferred. Our Panels are everywhere dominated by difficulties of production on efficiency considerations making it impossible for them to see that other considerations in a planned economy also apply. We must take elementary precautions to prevent a major recession in agricultural output should imports of fertilizers unhappily decline. The lighthearted manner in which we now propose to restrict the internal production of fertilizers is the result of unbounded faith in unlimited imports. But this facile optimism after our experience in the war would be an act of supreme folly; it is the reverse of planning to throw ourselves in this manner hopelessly at the mercy of chance.

The production of chemical fertilizers must, therefore, in common wisdom occupy a central place in our plans. It is not only a matter of foodgrains such as rice and wheat; sugar and our plantation crops also depend very

greatly on chemical manures. Our position in sugar isparticularly anomalous. We are now one of the largest producers of sugar, our output in 1943-44 being over 1,216,000 tons but we stand in the consumption scale below every important nation in the world. Our sugar and gur consumption is only 24 lbs. per head per annum against 106 lbs. per head in the United Kingdom and 97 lbs. in the U.S.A. The Sugar Panel has apparently ignored these figures for it has fixed an arbitrary target in five years of 1,600,000 tons being guided by no more rational consideration than that it should provide for an arbitrary twentyfive per cent increase over the pre-war consumption figure. This paltry target is expected to allow for exports of 50,000 tons per annum and after five years, taking account of our increase in population, we shall be so far as per capita consumption is concerned only little better off than we are today. This strange proposal was not deemed a fit subject for explanation or apology; indeed its authors even seriously proposed that, so far as existing mills producing less than 800 tons daily are concerned, they should be allowed no less than thirty months within which to decide whether or not they will choose to expand as proposed. It is only after thirty months that the country will be in a position to make arrangements for alternative sources of supply if existing producers should, in their absolute discretion, decline to avail themselves of this offer. And these proposals for a vital industry like sugar, be it noted, are made both in full view of our urgent need for more sugar and with full recognition of the fact that nearly all the machinery necessary for this industry can be manufactured within the country. The truth is that subject to allocation of suitable areas for cane and the

adoption of more scientific methods of cane cultivation, it should be quite possible to double our sugar output in five years and to treble it in fifteen. The authors of the report may think that the country should hail their report with enthusiasm; it is far more likely to deride it as the fruit not of a plan but of a producers' conspiracy; and it can only furnish opponents of the capitalist system with abundant proof of the inherent wickedness of restrictive capitalist enterprise.

The proposals of the Textile Control Board for the expansion of cloth production have much more to commend them although the target for annual production of cloth after five years is only 7,200 million yards which is only about half of what we will require to clothe our population with 30 yards of cloth per head per year. The difficulty here is a real one and the target if anything errs on the side of optimism, it being almost certain that we can neither manufacture at home nor import from abroad all the machinery required. In order to reach the target proposed it is suggested that we should instal in the next five years 2,750,000 additional spindles and 60,000 additional looms, there being also a programme of renovation of existing mills which provides for complete replacement of 10 million spindles and 2 lakhs of looms within ten years. If only a third of this renovation took place within five years we should require in all about 6,000,000 spindles and 120,000 looms for addition and replacement in the next five years. It is clear at once to anyone conversant with the position of manufacture of textile machinery both at home and abroad that it would be quite impossible to attain within the next five years anything near the spinning plant required. Adequately organized we should

be able to produce in India nearly three fourths of the looms required in the next five years, the remainder being obtained by an import quota which would steadily decline and disappear altogether after five years when self-sufficiency in loom production could be readily. obtained. The problems raised by the manufacture of spinning plant are far more exacting as we enter here into the field of precision engineering where we are still in our infancy. It should, however, be possible for internal production of spinning plant including all preparatory machines to cover 500,000 spindles per year after five years and 2,000,000 spindles per year at the end of ten. The approximate home production of spindles in the next ten years may, perhaps, be reckoned at 5,000,000 in all against a figure of 12,750,000 provided in the post-war plans of the Textile Control Board. It is possible, but extremely unlikely, that we shall be able to obtain imports of textile spinning machinery to cover the gap between these two figures. Our per capita production might then in fact not rise appreciably in the short period and may even be less than fifteen yards of cloth per head after five years; there is also very little likelihood in the following ten years of our being able to double the production in the second and third stages of the Plan. The unhappy conclusion emerges that we shall almost certainly not be able, owing to our being unable to obtain the machinery required, to maintain a minimum standard of thirty yards of clothing per head at the end of the Plan. It is best that the country should recognize this fact and accept its full implications; our plan must derive its strength from the satisfaction of our people and it

cannot gain in value merely by leading them endlessly up the garden path.

Not only is there likely to be failure on the side of production; there is an even greater danger of disorganiza-' tion on the side of distribution. If at the end of the Plan each citizen did in fact secure twenty-five yards of cloth per head per year, there would probably be little cause for complaint. But how are we to ensure that the twenty-five yards of cloth designed for each individual do in fact reach him and are not intercepted on the way? Even a complete system of rationing would be ineffective; for rationing merely accords a right of purchase and not the wherewithal; and between the ration card and the cloth it is expected to give there is a great gulf fixed. Two means only would appear to be available; one, the distribution of free cloth as a form of State charity; the other, the distribution of subsidized cloth of inferior types at a payment within the means of the poorest. The distribution of free cloth is in principle not different from the distribution of free medicine but it is likely in fact to be more demoralizing and there is a far wider risk both of abuse and corruption, a consideration which will probably be final. The second alternative although difficult will have then to be attempted. The main difficulty will arise from the fixing of the price of cloth at a level within the means of all. In the case of destitutes there will probably still be need for charity which might be dispensed through charitable institutions. For the rest it is probable that inferior cloth sold at about 12 annas a yard would be within the means of most. If we accepted 3 annas as the cost of this cloth and assumed that 20 yards per head were sold to two

hundred million people at half price, the loss to the State would be about forty crores of Rupees per year. This would be a substantial figure but it is necessarily involved in the guarantee of a cloth minimum at present; it would, of course, decrease steadily with the rise in the standard of life and when a true minimum is established it should disappear altogether.

The problem of good housing, both urban and rural, is in some respects the most difficult of all. A national minimum of 100 sq. ft. per person may appear moderate but the task of providing good accommodation on this scale in existing residential areas may well prove impossible. The layout of extensions and new colonies is everywhere a slow and painful process and at present with an acute shortage of building materials it is impossible to proceed rapidly. Even if we could increase cement production twenty times in the next fifteen years we would still be short; and bricks and steel are not likely to be in plentiful supply at any time during the next fifteen years. So far as rural housing is concerned, our standards need not be so rigid. Where mud and thatch are the only materials available housing improvements must be devised with their use. In Indonesia, rural housing has been vastly benefited by the wise use of bamboo and thatch and we could do something on these lines to proceed rapidly with rural housing while the production of other building materials gets into its stride. But the dimensions of our housing problem which have already been indicated in a previous chapter make it almost certain that we shall never succeed in attaining the national housing minimum within fifteen years. This is not a counsel of despair; it should, if anything, urge us on to

greater effort. Squalor and disease through bad housing spread fast but if we could make steady progress with the worst localities we shall do much to arrest further deterioration. The race will be longer than expected and there will be no quick success at the beginning. We may even lose ground but if we do not waver, we will win in the end as at long last even the tortoise may overtake the hare.

Of the other industries which directly minister to the needs of our people, the match industry occupies a prominent place. The rapid progress of the industry since 1924 when the factories of the Western India Match Company were established is a tribute to the efficient management. exercised in the main by the Swedish Match Company over the Western India Match Company and its sister concern, the Assam Match Company, which together supply more than eighty per cent of our present production of 21 million gross of boxes. This control exercised by foreign interests in a vital national industry must be viewed with some misgiving particularly in view of the monopolistic structure of the industry. But the industry has shown itself responsive to the needs of the Indian consumer and is likely in existing hands to develop rapidly in the next few years, with the additional possibility that Indian-made matches may be sold in other market assigned to the Swedish Company under the cartel agreement in which it is the most important partner The fact that this allocation of the Indian market was not opposed violently either by the Government of India or by Indian producers would appear to indicate that Indian producers are not very anxious to enter the field. While, therefore, as a matter of principle we should

Indian capital and management, there is little to be said at present for restricting the activities of existing companies. We should be willing to welcome foreign assistance in common tasks where they do not conflict with our own ends and can be made to promote them; control can always be invoked when necessary, particularly if monopolistic power is used to the detriment of the consumer. Meanwhile, however, while difficulties remain it would be foolish to prevent foreign companies from pulling some of our chestnuts out of the fire.

The match industry is one of the few industries in which production in the next fifteen years is likely to keep steadily ahead of demand. In another important industry, paper, we shall enjoy no such satisfaction although there has been sustained if sporadic progress since the first paper mill was started in 1870. There are now sixteen paper mills in India and their production of paper of all kinds including wrapping paper has doubled in the last six years and has reached the appreciable total figure of 104,000 tons. But we have not yet made any headway with newsprint all of which has to be imported and we still need several types of special paper. We have been held back in a few instances by a shortage of chemicals all of which could have been easily manufactured within the country. There is no difficulty in regard to raw material, the manufacture of bamboo pulp having advanced to 187,000 tons in 1944 and being capable of further expansion. Sabai grass, bagasse, spruce and fir wood are all available in abundance. And there is no reason why a large part of the machinery required should not as in the case of sugar be made

within the country. Our only disability in the way of expansion appears to be lack of technique and organization which may mean that we will need at least temporarily more foreign technicians. But the danger is that we shall choose the easier way of adopting a lower target figure for overall production instead of boldly making for a target which will enable us to attain self-sufficiency within a reasonable period. Paper as the medium of the written word will have to play a vital part in our plans of education and, at least because of its effects in mass literacy, we must steadfastly refuse to accept a target which does not provide us with most of the book and writing paper needed for our programme of education. The solution here would appear to lie in our hands; for foreign technicians are available at a price and with their aid it should be quite easy for us at once to cut the Gordian Knot.

The fear of over-production born of bitter experience in the world depression of the thirties underlies our hesitation everywhere to fix targets which correspond to the minimum needs of our people and are not influenced by temporary production difficulties and the constant dread of a glut. In a planned economy it is the responsibility of the State to absorb production surpluses so long as they are not in excess of the target and the fears of individual producers are certainly here without justification. But in any case we cannot have it both ways either we are prepared to establish a national minimum in a reasonable period or we are not. If we fix our targets of production low and in many cases absurdly low we shall not attain the minimum because the possibility of supplementing home production with imports from

abroad is rigidly circumscribed. To adopt low targets everywhere is therefore to abandon a national minimum; this cannot be interpreted as anything but a piece of deception practised on our people. By and large the establishing of a national minimum is the central aim of our Plan and if we should lapse here, we shall fail to recruit in the service of the Plan the support of the people without which it must assuredly fail. And it would be an act of extreme dishonesty, after proclaiming our intention of establishing a national minimum with a loud fanfare of trumpets, to withdraw from our word and seek shallow and empty targets which we know in our hearts cannot secure the minimum output required. It is also the more reprehensible to act in this manner without any serious attempt to reach our goal; it is one thing to try sincerely and fail; it is quite another to find a task difficult and leave it untried.

CHAPTER IX

WAYS AND MEANS

THE growth of industry on the scale and in the time proposed can only be accomplished if all parties in each sphere bring to their task a single mind bent upon its success. We shall need, too, many preliminary changes in particular the sweeping reform of administrative machinery and a changed outlook in industry and in Government circles both in the province and at the centre. And from all individuals in authority particularly in the supreme planning body we shall need a firm determination to surrender at all times local and individual interests for the good of the nation. We are likely to be confronted at once with the baffling problems of each province seeking wherever it can to advance its own claims to a major share in the country's trade and industry. There will also arise the hotly-debated issue of localization of each industry with all the arguments, good and bad, regarding what it is now fashionable to describe as Regional Development. And behind it all there will be a scramble by individuals for each concession that is offered this unedifying scramble has begun already and unless we can introduce speedily the elements of principle and order in the disposal of these claims, there will be both patronage and corruption, not only evil in themselves but, what is worse, recurring sources of waste and inefficiency at a time when we need to conserve all our resources with the strictest economy. It will be

difficult task to keep in check everywhere the acquisitive instinct of men anxious to grasp for their own areas or for themselves all the chances of industrial profit which will arise out of the Plan. This scramble will call forth much that is beastly and ignoble in the political and economic life of the country; avarice and greed and selfishness and hate. For where the carcass is, there also will the eagles be gathered.

The principles of industrial licensing which should be adopted are clear enough but their application will depend in part on political factors and will, therefore, vary as between one province and another. We may choose, sometimes with good reason, to sacrifice economic considerations to other ends. Where this choice involves a loss in production, we shall need in other fields or in other areas to make good the deficit. It will be one of the most difficult tasks of the planning authority to provide thus against shortages in production due to the unforeseen defection of Provincial Governments or to the failure of inefficient producers. The planning authority will have, if targets are to be attained, to be prepared always with measures to meet every lapse of production as soon as it occurs. It must therefore weigh each factor knowing every source of weakness as well as each source of strength. Not the least part of the Plan will be a breakdown service prepared to step in each time a gap in production or a weakness in organization or defection among producers rears its ugly head.

In the normal course if every agency does its part, the problem of industrial licensing is simple enough. The planning authority must first fix an overall target of production and then on the basis of the optimum size of

a unit, compute the number of units required. The location of these units is then to be decided as far as possible so as to secure the minimum selling price in the principal markets; this decision involves proximity of producing centres to important raw materials as well as railway freights on the finished product from producing centres to the markets concerned. If the difference between costs in various centres of production is not very high or if railway freight rates can with justification be altered so as to reduce differences in selling price, there is ground for spreading the industry in optimum units in as many provinces as possible. If, on the other hand, a particular province enjoys a clear advantage in production or sale, there is no advantage gained in insisting on . the location of new units in other provinces, unless this is directed by considerations of military strategy. For purposes of security, essential industries, and nearly all industries are now essential from a war standpoint, must to some extent be dispersed. But there is a wide difference merely in the dispersion of an industry for security and in the indiscriminate dissection of an industry merely to satisfy provincial jealousies or shibboleths of regional self-sufficiency. It is not wise for any province to spend a sum considerably in excess of the optimum figure in obstinately fostering an industry for which it enjoys no special advantage; for this is merely to place a burden both on itself and on the country as a whole by attracting to itself resources which could more profitably be employed elsewhere. But wise dispersion of a few spare units with strong localization in the best area is an advantage and not a fault. A wise man in this uncertain world does well not to keep all his eggs

in a single basket; but only a fool will employ as many baskets as he has eggs.

What has done much to promote a faith in Regional Development is the confused view that the theory of comparative advantages of particular areas has in the modern world largely disintegrated. This theory was derived from the classical conception of international and inter-regional trade, a conception which with all its limitations embodies a truth which new factors have in no wise shaken. This truth is that at any given moment there are some areas more suited than others for the production of certain classes of goods and the mutual benefit of areas is secured by an exchange of goods, each area concentrating on those goods which it can produce at the lowest comparative cost. It is sometimes believed that this doctrine has been undermined as the result of the rapid change of technique due to inventions, taking away suddenly from particular areas all the advantages which they previously enjoyed. But inventions are either random or biassed in favour of special areas. If random they tend to cancel out over the long period leaving the previous advantanges still holding the field. If they are biassed in favour of special areas they constitute themselves one of the most important factors favouring specialization. Whether therefore, as an argument for international or interregional trade, the classical argument is valid as an instantaneous doctrine, and where comparative costs are not changed rapidly, an assumption largely applicable to inter-regional trade, they apply for a considerable period. A new technique or a new invention may possibly alter circumstances; cotton may as a result of some

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improvement in agricultural technique grow, for example, better in Bengal than in Broach; but until the new circumstances have worked themselves out common wisdom would suggest that we should concentrate on areas of proved industrial efficiency so far as each product is concerned. To the extent that industry is necessary to produce employment in a province from. which labour cannot be readily transferred there is ground for some modification of the argument but only from the point of view of that province. The volume of total employment being the same, it should not make much difference in the ordinary course if the employment is given, say, in Bombay or Bengal. So far as India as a whole is concerned, if we could only forget the possibility of division, the argument about employment would be irrelevant. We should therefore seek the good of all and not of one province only. But with the political atmosphere still heavily clouded with provincial jealousies it is likely that this counsel of perfection will be more honoured in the breach than in the observance.

Industry is now in the main a provincial subject and whatever constitution the Constituent Assembly may bring forth it would appear that industry will be even more a provincial subject in the future. This is not in itself necessarily a cause for alarm: if the provinces acted as trusted agents of the planning authority observing everywhere its directions it would be an advantage to have local direction exercised by local authorities. These directions must, however, be exactly fulfilled and neither whittled down nor exceeded. If the planning authority decrees, for example, in any province six new spinning

units of 25,000 spindles, that being judged the optimum unit, it is not open to a province to grant licenses for twelve units with half the number of spindles each on the argument that the distribution of the spoils is its own affair. And if the province has the privilege of licensing industry in its own area, it must be held responsible for the target output for its area; if it fails without good reason to fulfil its obligations it should be open to the planning authority to cancel the license of a defaulting producer and to impose penalties both on the producer and on the Provincial Government if it should unfortunately also prove to be responsible for the failure. This subjection of the Provincial Government to the central planning authority is necessarily involved in the execution of a plan and it is quite consistent with widespread political autonomy in other matters, it is certainly not an excuse to be availed of by the Central Government for encroachment on a province's own preserves. But it must be there to save industry; if necessary, from becoming the plaything of political patronage; our targets will fail everywhere if a local Government should unhappily treat industrial licenses as though they were rewards for party or political services.

This danger of political pressure in the distribution of industrial largesse is very real. There is everything to be said for recruiting in the service of industry all communities and all sections of the nation so that they may all share in industrial prosperity and may all gain in time both in knowledge and capacity. But there is nothing to be said for foisting industries for political reasons on those who patently cannot run them efficiently; if political

patronage is essential, there is far more to be said for handing over to party supporters going concerns where the difficulties are far less onerous. If going concerns were acquired by Governments as political prizes to be distributed to their supporters there would be less harm done to the country than if they handed them industrial licenses which, while preventing others from entering the field, would not be turned to good account by their incompetent holders. At a time when rapid strides are to be made in new production, it would be fatal to rely on the doctrine that the grant of a license to anyone however incompetent, will miraculously bring forth in the fullness of time an industry full-fledged and running happily on its own.

The dilemma raised by the grant of license is not, of course, always easily resolved. The concentration of ownership or management in a few hands is an evil against which we shall have to keep always on our guard. In certain industries the process of growth and training is not exacting and we may justly allow newcomers into the field without serious misgiving. In the normal course the cotton textile industry, the chemical fertilizer industry, the cement industry and the sugar industry should be cases in point. The retention of the lion's share of new production in the hands of existing producers is in these cases unwarranted. The test here must be whether existing units are of optimum size; if they are lower than optimum size they should be allowed to expand until they attain optimum size. But after they have attained optimum size further expansion is to be opposed not only because of economic considerations as after that level costs of production

will rise; but also on political grounds for it leads to undue concentration of the industries in a few units instead of units being dispersed under different ownership and control. The Government of India has not indeed, yet shown that it has followed any principles in the matter and there is already universal dissatisfaction with its proposed licensing for the three industries, cement, vegetable ghee and textiles, where proposals have been announced. In cement, for example, it is proposed in the next five years to increase the annual target of production by three million tons. Of this a quota of no less than 1.85 million tons has been allocated. to existing producers and only about a third has been left to what is conveniently described as 'other' parties. Nowhere have considerations of optimum size of a unit entered into the calculation and apparently the twolarge groups who now dominate the cement industry have acquired a five-year period in which further to consolidate their position. Secure in the possession of these licenses, these companies will emerge from the quinquennium so powerful that the other parties in this vital national industry will be able to do little except enter their ring or sign ignominiously on the dotted line to every proposal which the two senior partners in the industry dictate. The abuse of power is as real in industry as in politics; we cannot forget the warning of a great historian that all power corrupts absolutely. We may dislike, because of its political associations, the ancient doctrine of Divide et Impera but it contains a counsel of wisdom which we can only summarily discard at our peril.

A dispersion of ownership and control must, there-

fore, be a primary aim of industrial licensing. This is likely in the short period to be a source of inefficiency and, therefore, of considerable anxiety to the planning authority but it is one of the growing pains of a plan which we shall have heroically to endure. The extent to which dispersion of ownership and control is to be invoked in each industry will depend on many circumstances but is principally connected with the optimum size of a unit in the industry. Licensing on a location basis without relation to the optimum size of a unit is likely to be extremely wasteful; it is better that a target should be raised so as to include new units than that all units should be reduced from the optimum merely to accommodate additional units for which provision must be made. In the cotton textile industry it would appear that the fixing of new units at 25,000 spindles and 600 looms only is a concession to the insistent claims of each province and the very large number of applications received. But a serious error has been committed in that our cotton textile industry with new units far below the optimum size will be producing cloth at a cost far higher than the advanced clothproducing countries where efficient units sometimes contain over 80,000 spindles each. While the acute shortage of cloth lasts we may choose not to attach much importance to industrial efficiency; but our comparative efficiency will soon tell in export markets and we will be the poorer for having lost valuable markets merely in order to gratify as large a number of applicants as possible. And if we should unfortunately be visited by another great depression many of these units, fundamentally weak in structure because of their

low output, will go rapidly to the wall. We may then be faced with a new dilemma. If we do not keep them alive with a State subsidy, there will be a rapid fall in cloth production, thus endangering the national clothing minimum as well as total income; if we keep them alive, we shall be incurring a heavy loss at a time when our other revenues are declining thus imperilling our financial stability. And everywhere there will be complaints that private industry makes hay while the sun shines leaving the State meekly to bear all its burdens when darkness overtakes the land.

Subject to the condition that units are of the optimum size and there are enough units to go round there is wisdom in the location of new units in a manner designed to achieve what is generally described as Regional Development. There are other considerations besides the purely economic ones involved in the location of new industry. In the next fifteen years if our programme of industrialization materializes, the face of large areas of the country will-be substantially changed. The growth of factories, vast industrial housing schemes, and increased activity in centres of trade will bring in their train important changes in the social structure of the country. There should be no province in the country which should be outside the scope of these movements; for if out of these new currents there is to be built a new order, all our people have a full right to share in its fruit. Regional Development, if it means that each province must have a just share of this new life, in Agriculture, Industry, Education, Culture, Housing and Public Health, must command our unstinted support.

It is for the supreme planning authority to decide in what proportions the country's resources are to be divided between various conflicting claims whether it is a choice between occupations, a choice between different industries, or a choice in location. In this decision the final test must be the welfare of the country and not that of any narrow, sectional or provincial interest. And there is no reason why in arriving at a decision the supreme planning authority should accord to industry a preeminent place. Industry is one of the most important sections of the Plan but it is still only a part and the part is always less than the whole. We cannot complain therefore, if industrial targets are reduced in some places to provide resources for other sectors or if considerations other than those of enlarging output prevail, over the immediate needs of industrial production.

Because of the vast and extensive powers that it will exercise, our destiny will lie in a manner and in a degree which it is quite impossible to exaggerate with the supreme planning authority. It is essential that it should command the finest talent of the nation; the individuals who constitute this body must not only be great in stature armed with knowledge, experience, understanding and patriotism; they must carry the confidence of every section of the public. And they must be representatives of all important sections of the country's life. In the U.S.S.R., the Gosplan or State Planning Commission, consists of eleven members elected from leading industrial workers, scientists and specialists and its final plans are submitted for approval to the Council of People's Commissars. We cannot copy this example in every detail. Election under present conditions in India is very likely to return political nominees and there is a great deal to be said for keeping planning, as far

as this can conveniently be done, outside politics. If we could recruit for this task by nomination ten of the ablest men of the country who owe no party allegiances and who carry with them the qualities required, the most difficult of our problems would be solved. Once formed as a Standing Commission the supreme planning authority should, except that its plans are to be submitted for final approval to the Central Assembly, have a free hand in truth as well as in law. There should be a provision for dismissal of any member for improper conduct and also opportunities for resignation by a member who is unable to discharge his exacting duties. But otherwise the work of the supreme planning authority should pursue a continuous course in no way subject to interruption due to change of personnel at least for a period of five years at a time. This proposal may cause some misgiving but it is in the best tradition of real democracy thus to delegate extensive powers to an unchanging body; for the final say still rests so far as policy is concerned with the representatives of the people. Even if the members of the supreme planning authority were permanent officials we would have little to fear; the danger of the New Despotism is not that it wields extensive powers but that it wields powers contrary to the general tenor of approved legislation. The reference of all plans to the Legislature is guarantee enough that the final plans carry with them the authority of the elected representatives of the people.

If the supreme planning body is to discharge all the functions assigned to it under the Plan it will need to delegate wide powers of administration to subordinate agencies which must be formed with the same detachment

and freedom from self-interest and political affiliations as itself. Three major administrative units suggest themselves at once. The first and, perhaps most important of these, will be a Transport and Power Commission mobilizing every aspect of the country's transport and power resources in the service of the Plan; it will not be merely an exalted Railway Board with powers extended and machinery improved. It will be the supreme agent of the planning authority charged with the duty of bringing every type of transport and power into line with the Plan. Power being the key to industry, the planning of new power units is in large part a decision about the location of new industry; and the transport rate structure will determine the extent to which each producing unit can serve distant markets. The Power and Transport Commission will, therefore, largely determine the future of industry although it will not itself be charged with the task of watching industrial progress. This should be the special function of an Industrial Commission among whose tasks will be the licensing of new industry, the filling of gaps in production which arise in the working out of the Plan, the allocation of raw materials and the zoning of markets in accordance with the Plan. The third great Commission proposed is a Commission for Agriculture charged with the duty of raising by every means agricultural production up to the target figure incorporated in the Plan. All these Commissions have common frontiers and it is likely that decisions may in some cases have to be made together. Where agreement is possible, all will be well; if, however, as is probable, differences arise, reference must be to the supreme planning authority whose decision will be final subject.

of course, to the overriding approval of the Legislature. All three Commissions as well as the supreme planning authority must be workmanlike bodies capable of prompt decision; they must be constituted as Committees of Action not as platforms of endless discussion; and provided they are representative of all important sections of the community, we should not seek in them a nice balance of opinion with carefully-laid weights and measures so that the capacity for decision is nearly paralysed and promt action continuously stayed.

Both the supreme planning authority and its subordinate commissions will need in view of the great complexity of the problems with which they are dealing to have the services of a vast Secretariat equal to the country's needs. This is one of the most exacting tasks which now face the country. Secretariat procedure both at Delhi and in the Provincial Capitals is at the present time so involved and dilatory that nothing but drastic surgery involving a major operation can provide a cure. Whether or no a National Government will be able to effect this cure is an issue of the first importance; for our plans hang upon the slenderest thread if administrative machinery is incapable of bearing the strain. We must plan at once for its rebuilding but until this task is accomplished we must hope that existing machinery will at least temporarily spring to life with the desperate need that exists for its awakening.

There are some who will look upon these plans with suspicion and distrust, asserting foolishly and parrot-like that they are part of a capitalist conspiracy; the doctrinnaire communist will probably view them with active hate although they have derived much from Russian

practice. Depending on our brands of political opinion, there will be expressed in varying degrees doubts of the efficacy and political merits of these arrangements. They are not immune from criticism as they are not free from dangers and from abuse. They may in the process of trial be found, in some respects, seriously wanting. So far as industry is concerned it may, however, be claimed that in existing circumstances we cannot secure any more effective method in the least likely to attain our ends within the period considered. The limiting condition of a plan is to be found in the time-factor. Time itself has altered, its measuring-rod in industrial affairs having been greatly reduced with improving technique and better organization. But it still takes time to organize industries as it takes time to regiment thought; and we cannot build within the brief span of fifteen years a completely new order which is unrelated to existing agencies and makes boldly at one wild stroke for socialism, pure and undefiled. After our principal aim has been achieved and the grim ogre of primary poverty has been abolished there will be time to consider how we may dispel the evils of private profit while losing nothing of its virtues. That time is not yet but we may, if we wish, look forward to its coming. There is no bar in the future to any creed; but our next pause to think over fundamentals must come only after fifteen years. Meanwhile we must summon all hands to our immediate tasks seeking with all the enthusiasm we can create in this divided and distracted world, not only to deal firmly with the wolf lso to lay the foundations of a larger and

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